<u>NEW ISSUE</u> – BOOK-ENTRY ONLY **RATINGS: See "Ratings" herein**

In the opinion of Mayer Brown LLP ("Bond Counsel"), under existing law, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes assuming continuing compliance with the requirements of federal tax laws. Interest on the Bonds is not a preference item for purposes of either individual or corporate federal alternative minimum tax; however, interest on the Bonds is included in "adjusted current earnings" for purposes of calculating the federal alternative minimum tax liability of certain corporations. Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is not exempt from present Illinois income taxes. See "TAX MATTERS" herein for a more complete discussion.

$50,000,000
STATE OF ILLINOIS
General Obligation Bonds
Series of September 2012

Dated: Date of Delivery **Due: As shown on the inside cover**

This Official Statement contains information relating to the State of Illinois (the "State") and the State's general obligation bonds, to be issued as General Obligation Bonds, Series of September, 2012 (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 Depositary Trust Company ("DTC"), New York, New York. See "APPENDIX D – BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES." The Bonds will bear interest at the rates shown on the inside cover of this Official Statement. Interest on the Bonds will be payable March 1 and September 1 of each year, commencing on March 1, 2013. Details of payment of the Bonds are described herein.

The Bonds are not subject to optional or mandatory sinking fund redemption prior to maturity as set forth herein.

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 provide funds to finance certain of the State's transportation, school construction, anti-pollution, coal and energy development, State facilities and other capital projects and to pay costs of financing, including, but not limited to, the cost of issuance of the Bonds.

The Bonds are offered when, as and if issued and received by the Purchasers, subject to approval of legality by Mayer Brown LLP, Chicago, Illinois ("Bond Counsel"), and certain other conditions. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about September 25, 2012.

Raymond James & Associates, Inc.

September 13, 2012

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, PRICES AND CUSIP NUMBERS*

$50,000,000 GENERAL OBLIGATION BONDS, SERIES OF SEPTEMBER 2012

Due September 1	Principal Amount	Interest Rate	Yield	Price	CUSIP*
2013	$5,000,000	3.000%	0.950%	101.899	452152PN5
2014	5,000,000	3.000	1.050	103.721	452152PP0
2015	5,000,000	4.000	1.250	107.895	452152PQ8
2016	5,000,000	4.000	1.500	109.513	452152PR6
2017	5,000,000	4.000	1.750	110.589	452152PS4
2018	5,000,000	4.000	2.150	110.252	452152PT2
2019	5,000,000	4.000	2.450	109.826	452152PU9
2020	5,000,000	4.000	2.740	108.927	452152PV7
2021	5,000,000	4.000	3.020	107.621	452152PW5
2022	5,000,000	4.000	3.190	106.847	452152PX3

 The CUSIP numbers listed are being provided solely for the convenience of the bondholders only at the time of issuance of the Bonds and the State does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

In the opinion of Mayer Brown LLP ("Bond Counsel"), under existing law, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes assuming continuing compliance with the requirements of federal tax laws. Interest on the Bonds is not a preference item for purposes of either individual or corporate federal alternative minimum tax; however, interest on the Bonds is included in "adjusted current earnings" for purposes of calculating the federal alternative minimum tax liability of certain corporations. Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is not exempt from present Illinois income taxes. See "TAX MATTERS" herein for a more complete discussion.

STATE OF ILLINOIS

$50,000,000
State of Illinois
General Obligation Bonds
Series of September 2012

Pat Quinn
Governor

Jerome Stermer
Acting Director of the Governor's Office of Management and Budget

John Sinsheimer
Director of Capital Markets

James Prichard
Manager of Capital Markets

PREFACE

No dealer, broker, salesperson, or other person has been authorized by the State of Illinois or Raymond James & Associates, Inc. (the "Purchaser") or Peralta Garcia Solutions, LLC, the Financial Advisor, 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 PURCHASER 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.

FORWARD-LOOKING STATEMENTS

This Official Statement contains disclosures which contain "*forward-looking statements*." Forward-looking statements include all statements that do not relate solely to historical or current fact, and can be identified by use of words like "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan," or "continue." These forward-looking statements are based on the current plans and expectations of the State and are subject to a number of known and unknown uncertainties and risks, many of which are beyond its control, that could significantly affect current plans and expectations and the State's future financial position including but not limited to changes in general economic conditions, demographic trends and federal programs which may affect the transfer of funds from the federal government to the State. As a consequence, current plans, anticipated actions and future financial positions may differ from those expressed in any forward-looking statements made by the State herein. Investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in the Official Statement.

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$50,000,000
State of Illinois
General Obligation Bonds
Series of September 2012

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 thereof.

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 $50,000,000 General Obligation Bonds, Series of September 2012 (the "Bonds"). The Bonds are being issued to fund certain of the State's capital projects and to pay costs of financing, including, but not limited to, the costs of issuance of the Bonds. The Bonds are issued pursuant to the provisions of the General Obligation Bond Act of the State of Illinois, (30 ILCS 330/1 *et seq.*), as amended (the "Bond Act").

Illinois is a sovereign state of the United States and is an 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."

The State has diversified economic strengths. Measured by per capita personal income, the State ranks third among the ten most populous states and sixteenth among all states. Illinois ranks third among all states in total cash receipts from crops, fifth 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 - CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS" for sources and further information regarding the State.

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 (as hereinafter defined) issued under the Bond 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 TREATMENT OF INTEREST

Interest on the Bonds (i) is excluded from the gross income of the owners thereof for federal income tax purposes and (ii) is not exempt from present State of Illinois income taxes. See "TAX MATTERS" herein for a more complete discussion.

AUTHORITY FOR ISSUANCE

The Bond Act authorizes the State to issue and sell direct, general obligations of the State (the "GO Bonds"), including the Bonds, for purposes other than refunding, in the currently authorized aggregate principal amount of $46,361,925,743. The Bond Act further authorizes the issuance of GO Bonds in the amount of up to $4,839,025,000, at any time and from time-to-time outstanding, for the purpose of refunding any outstanding GO Bonds. The total amount of GO Bonds outstanding, as of the date of this Official Statement, is $27,504,113,778. The Bond Act consolidated the authorization contained in prior bond acts into a single act. See "INDEBTEDNESS – GENERAL OBLIGATION BONDS" for a description of the GO Bonds authorized, previously issued and outstanding under the Bond Act and prior bond acts.

Amendments to the Bond Act, effective July 30, 2004 (the "Amendments"), placed certain restrictions on the issuance of GO Bonds. The Amendments include 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) other than certain refunding GO Bonds, 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 after the issuance of such GO Bonds, the amount of debt service on all then-outstanding GO Bonds (other than GO Bonds issued to pay pension obligations in 2010 and 2011) exceeds 7% of the General Funds (as described in Table 5 under the heading "STATE FINANCIAL INFORMATION") and Road Fund appropriations for the fiscal year immediately prior to the fiscal year of the issuance; however, the Illinois State Treasurer (the "Treasurer") and Illinois State Comptroller (the "Comptroller"), acting together, can waive this requirement. The Amendments also require the Governor's Office of Management and Budget ("GOMB") to comply with the Business Enterprise for Minorities, Females, and Persons with Disabilities Act (30 ILCS 575/1, *et seq.*) in respect to procuring services for the issuance of GO Bonds.

THE OFFERING

DESCRIPTION OF BONDS

The Bonds will bear interest from their issue date and will mature on September 1, of each of the years 2013 to 2022, inclusive. Interest on the Bonds is payable semiannually on the first days of March and September of each year, beginning on March 1, 2013, at the rates per annum specified on the inside of the front cover of this Official Statement.

Purchases of the Bonds will be made 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, 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 D – GLOBAL BOOK-ENTRY SYSTEM."

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth for each fiscal year the annual debt service requirements (rounded to the nearest dollar) on the Bonds.

Fiscal Year	Principal	Interest	Total
2013		$ 823,333	$ 823,333
2014	$ 5,000,000	1,825,000	6,825,000
2015	5,000,000	1,675,000	6,675,000
2016	5,000,000	1,500,000	6,500,000
2017	5,000,000	1,300,000	6,300,000
2018	5,000,000	1,100,000	6,100,000
2019	5,000,000	900,000	5,900,000
2020	5,000,000	700,000	5,700,000
2021	5,000,000	500,000	5,500,000
2022	5,000,000	300,000	5,300,000
2023	5,000,000	100,000	5,100,000
	$ 50,000,000	$ 10,723,333	$ 60,723,333

No Redemption Prior to Maturity

The Bonds are not subject to optional or mandatory sinking fund redemption prior to maturity.

Plan of Finance

The net proceeds of sale of the Bonds will be used to provide funds to finance certain of the State's information technology capital projects and to pay costs of financing, including, but not limited to, the cost of issuance of the Bonds. See "THE OFFERING – APPLICATION OF BOND PROCEEDS" below.

Application of Bond Proceeds

Proceeds of the Bonds will be applied approximately as set forth below

Sources:	
Principal Amount Issued	$50,000,000.00
Net Premium	3,854,500.00
Total Sources	$53,854,500.00

Uses:	
Deposit to Project Fund	$53,604,500.00
Underwriters' Discount	107,000.00
Issuance Expenses	143,000.00
Total Uses	$53,854,500.00

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 REVIEW."

STATE FUNDING PAYMENTS

To provide for the manner of repayment of the Bonds, the Bond Act requires the Governor of the State (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 issued under the Bond Act 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 "GOBRI Fund") to be used for such repayment. The Bond Act requires the General Assembly annually to make appropriations to pay the principal of, interest on and premium, if any, on outstanding GO Bonds issued under the Bond Act from the GOBRI Fund.

If for any reason there are insufficient funds in the General Revenue Fund, or with respect to GO Bonds issued under Section 4(a) of the Bond Act for highway and surface transportation purposes (or bonds issued to refund bonds issued for such purposes) in the Road Fund established pursuant to Section 5.42 of the State Finance Act, 30 ILCS 105/1 *et. seq*. (the "Road Fund"), to make transfers to the GOBRI 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 GO 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 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, interest on and premium, if any, on the Bonds that will be payable in order to retire such Bonds and the amount of principal of, interest on and premium, if any, 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, to the GOBRI Fund an amount sufficient to pay the aggregate of the principal of, interest on and premium, if any, on GO Bonds issued under the Bond Act payable by their terms on the next payment date divided by the number of full calendar months between the date of such GO 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. The formula described above shall apply: (i) pursuant to the Bond Act for transfers from the Road Fund to the GOBRI Fund for GO Bonds issued under Section 4(a) of the Bond Act; (ii) pursuant to the State Finance Act and the Bond Act for transfers from the School Infrastructure Fund and the General Revenue Fund to the GOBRI Fund for GO Bonds issued under to Section 5(e) of the Bond Act for school improvement projects; (iii) and pursuant to the State Finance Act for transfers from the Capital Projects Fund to the GOBRI Fund for all GO Bonds issued pursuant to the bonding authorization under the Illinois Jobs Now! capital program. This transfer of moneys is not required if moneys in the GOBRI 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. Historical fund transfers to GOBRI are further detailed under "INDEBTEDNESS –TRANSFERS TO THE GOBRI FUND FOR PAYMENT OF DEBT SERVICE."

Moneys in the GOBRI 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 GOBRI 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 GOBRI Fund for the payment of the GO Bonds as described above.

INVESTMENT OF FUNDS

The Treasurer may, with the Governor's approval, invest and reinvest any money in the GOBRI 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 are paid into the GOBRI Fund.

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 constitutionally elected officials of the Executive Branch of the State include the Lieutenant Governor, the Attorney General, the Secretary of State, the Comptroller and the Treasurer. The Auditor General is a constitutional officer appointed and confirmed by the Senate.

The Illinois Constitution provides that all elected officials of the Executive Branch of the State government hold office for four-year terms. The State's current elected constitutional officials are Governor Pat Quinn, Lieutenant Governor Sheila Simon, Attorney General Lisa Madigan, Secretary of State Jesse White, Comptroller Judy Baar Topinka and Treasurer Dan Rutherford. Pursuant to the Illinois Constitution, these officials were elected at a general election in November 2010, and took office as of January 10, 2011. The elected constitutional officers are each elected to serve a four-year term.

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 of Representatives meet in annual sessions to enact, amend or repeal laws and to adopt appropriation bills. Pursuant to Illinois law, the election of all members of the Senate and House of Representatives will be held in November, 2012.

The judicial branch is composed of the Supreme Court, the Appellate Courts and the Circuit Courts. Pursuant to Illinois law, judicial elections will be held in November, 2012.

Approximately 90% of State employees are covered by collective bargaining agreements. These collective bargaining agreements expired on June 30, 2012. The terms for new collective bargaining agreements are currently under negotiation.

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, Section 2 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.

Article IV, Section 9 of 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 General Assembly. 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.

CONSTITUTIONAL PROVISIONS RELATING TO LONG-TERM BORROWING

Section 9(a) of Article IX of the Illinois Constitution defines the term "State debt" as "bonds or other evidences of indebtedness which are secured by the full faith and credit of the State or are required to be repaid, directly or indirectly, from tax revenue and which are incurred by the State, any department, authority, public corporation or quasi-public corporation of the State, any State college or university, or any other public agency created by the State, but not by units of local government, or school districts."

Section 9(b) of Article IX of the Illinois Constitution, pursuant to which the Bond Act was enacted, provides:

> (b) State debt for specific purposes may be incurred or the payment of State or other debt guaranteed in such amounts as may be provided either in a law passed by the vote of three-fifths of the members elected to each house of the General Assembly or in a law approved by a majority of the electors voting on the question at the next general election following passage. Any law providing for the incurring or guaranteeing of debt shall set forth the specific purposes and the manner of repayment.

CONSTITUTIONAL PROVISIONS RELATING TO REFUNDINGS

Section 9(e) of Article IX of the Illinois Constitution provides the constitutional authority to refund State debt, by providing the following:

> (e) State debt may be incurred by law to refund outstanding State debt if the refunding debt matures within the term of the outstanding State debt.

CONSTITUTIONAL PROVISIONS RELATING TO SHORT-TERM BORROWING

Sections 9(c) and 9(d) of Article IX of the Illinois Constitution, pursuant to which the Short Term Borrowing Act (30 ILCS 340/1 *et seq.*) was enacted, state:

> (c) State debt in anticipation of revenues to be collected in a fiscal year may be incurred by law in an amount not exceeding 5% of the State's appropriations for that fiscal year. Such debt shall be retired from the revenues realized in that fiscal year.
>
> (d) State debt may be incurred by law in an amount not exceeding 15% of the State's appropriations for that fiscal year to meet deficits caused by emergencies or failures of revenue. Such law shall provide that the debt be repaid within one year of the date it is incurred.

GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

GOMB was created in 2003 by the Governor's Office of Management and Budget Act (20 ILCS 3005/1 *et seq*.). GOMB is headed by a Director, who is appointed by the Governor (the "Director"). In addition to assisting the Governor in developing the State's annual operating and capital budgets, GOMB provides financial and other information regarding the State to securities investors, the Municipal Securities Rulemaking Board under its Electronic Municipal Market Access ("EMMA") system (and other securities information repositories or state information depositories as required by federal securities rules). See "CONTINUING DISCLOSURE" and "APPENDIX E – CONTINUING DISCLOSURE UNDERTAKING."

GOMB has established an investor relations website, www.capitalmarkets.illinois.gov, as a means to communicate on an on-going basis about the State's debt financing and capital programs, including documents and links to important information about the State and its issuance of bonds.

WEBSITE INDEX

The following is the list of the websites referenced in this Official Statement. GOMB is not responsible for the information within these websites and such websites should only be used in conjunction with this Official Statement. As noted above, the State disseminates and discloses certain information, including material updates to the State's bond disclosures, through EMMA. None of the websites listed below is intended to act as a substitute for the disclosure of the information posted on EMMA, nor do these websites necessarily include all of the information currently disclosed on EMMA. Please review the State's filings on EMMA for current information on the State's disclosures.

Organization or Department	Website Address	Description of Website
State of Illinois	www.illinois.gov	Lead portal for all State information
Capital Markets	www.capitalmarkets.illinois.gov	Lead portal for investor outreach
Governor's Office of Management and Budget	http://www.state.il.us/budget/	Lead portal for operating budgets, economic and fiscal reports and three year projections and quarterly reports
State of Illinois	http://www2.illinois.gov/budget/Documents/Budget%20Book/FY%202013/FINAL%20FY13%20BUDGET%20SPEECH.pdf	Link to the Governor's Fiscal Year 13 Budget address
State of Illinois	http://www.state.il.us/budget/FY2013/FY13OperatingBudget.pdf	Link to the Governor's proposed Fiscal Year 13 Operating Budget
Comptroller	www.ioc.state.il.us	Lead portal for all Comptroller based information
Comptroller (CAFR)	http://www.ioc.state.il.us/index.cfm/departments/research-and-fiscal/financial-reporting-publications/comprehensive-annual-financial-report-cafr/	Link to CAFR Library
Comptroller, Traditional Budgetary Financial Report	http://www.comptroller.state.il.us/index.cfm/resources/reports/traditional-budgetary-financial/	Link to the Traditional Budgetary Financial Report
General Assembly	www.ilga.gov	Lead portal to the Illinois General Assembly
Retirement Systems:		
TRS	www.trs.illinois.gov	Lead portal to Teacher's Retirement System
SURS	www.surs.com	Lead portal to State University Retirement System
SERS	www.state.il.us/srs	Lead portal to State Employee Retirement System
JRS	www.state.il.us/srs/judges/home_jrs.htm	Lead portal to Judges Retirement System
GAR	www.state.il.us/srs/gars/home_gars.htm	Lead portal to General Assembly Retirement System
College Illinois	http://www.collegeillinois.org/home/documents/ISAC_Val2011Final_coverletter.pdf	Link to the College Illinois actuarial report
Tax Handbook	http://www.ilga.gov/commission/lru/2011TaxHandbook.pdf	Legislative Research Unit handbook on all Illinois taxes
Commission on Governmental Forecasting and Accountability	http://www.ilga.gov/commission/cgfa2006/Home.aspx	Lead portal to CGFA, contains its report on the financial condition of the Retirement Systems
Pension Reform Taskforce	http://www2.illinois.gov/gov/Pages/PensionReform.aspx	Lead portal to the Pension Reform Taskforce, contains their reports and other documents relating to pension reform
Electronic Municipal Market Access	http://emma.msrb.org/	Lead portal to MSRB's EMMA

STATE FINANCIAL INFORMATION

The tables that follow present pertinent financial information about the State. Data is for the State's fiscal years, each of which run from July 1 through June 30. Tables 2, 3, 4 and 6, unless otherwise noted, are based on information contained in detailed annual reports or records of the Office of the Comptroller. The Fiscal Year 2011 Comprehensive Annual Financial Report ("CAFR") may be found at the Comptoller's website. See "STATE OF ILLINOIS – WEBSITE INDEX." Tables 1, 1A, 5 and 6 are based on records of the GOMB and also include information drawn from various reports or records of the Comptroller. For purposes of Tables 3 and 4, expenditures are deemed to be recognized when a liability is incurred and recorded by the Comptroller; disbursements of cash are made when payment warrants are issued.

TABLES 1 AND 1A – FOUR YEAR COMPARISON OF GENERAL OPERATING BUDGET

Tables 1 and 1A, which are reflected on the following pages, are a four fiscal year comparison of the general operating budget of the State and prepared on a "budget basis." The budgetary basis reflects the statutory provisions and associated policies for recognition of revenues, expenditures, transfers and outstanding liabilities, associated with the passage and adoption of the General Funds budget for each fiscal year. Budget basis statements differ materially from those prepared on a Generally Accepted Accounting Principles ("GAAP") basis, as further discussed below. Tables 1 and 1A, Table 2 and the State's CAFR, taken together, should be referenced for a more complete understanding of the financial statements as well as accompanying footnotes. See "GENERAL PURPOSE FINANCIAL STATEMENTS – TABLE 2," and "DISCUSSION AND ANALYSIS OF FISCAL YEARS 2010 THROUGH 2013".

TABLE 1
STATEMENT OF SOURCES, USES AND CHANGES IN FUND BALANCE
- GENERAL FUNDS (BUDGETARY BASIS)

(Dollars in Millions)

	Fiscal Year 2010 Actual Results (June 2011)	Fiscal Year 2011 Actual Results (June 2012)	Fiscal Year 2012 Revised Budget (July 2012)	Fiscal Year 2013 Introduced Budget (May 2012)	Fiscal Year 2013 Enacted Budget* (July 2012)
SOURCES					
State Revenues					
Individual Income Tax	$ 8,511	$ 11,225	$ 15,512	$ 15,273	$ 15,273
Corporate Income Tax	1,360	1,851	2,461	2,550	2,550
Sales Tax	6,308	6,833	7,226	7,335	7,335
Public Utility Taxes	1,089	1,147	995	1,101	1,101
Cigarette Taxes	355	355	354	355	355
Inheritance Tax	243	122	235	242	242
Liquor Gallonage Taxes	159	157	164	163	163
Insurance Tax and Fees	322	317	345	285	285
Corporate Franchise Taxes and Fees	208	207	192	203	203
Other State Sources	732	706	694	698	698
Federal Revenues	5,920	5,386	3,682	3,935	4,231
TOTAL REVENUES	25,207	28,306	31,860	32,140	32,436
Transfers In [1]	2,159	1,857	1,763	1,800	1,962
TOTAL OPERATING SOURCES	**27,366**	**30,163**	**33,623**	**33,940**	**34,398**
USES					
Operating Budget Objectives [2]					
Provide quality education and opportunities for growth	9,663	9,300	8,945	8,954	8,594
Enhance the economic well-being of citizens	176	188	94	87	78
Protect the lives and property of citizens	1,518	1,649	1,533	1,424	1,433
Protect the most vulnerable among us	6,447	5,827	5,404	5,347	5,123
Improve access to and cost effectiveness of healthcare	6,227	6,971	6,845	6,768	6,804
Improve the quality of life for citizens	76	82	68	69	62
Improve the efficiency and fiscal stability of State Government	2,248	1,829	2,558	2,178	1,811
State Pension Contributions [3]	3,466	3,680	4,135	5,090	5,100
Unspent Budgeted Appropriations	(896)	(350)	(311)	(500)	(650)
TOTAL EXPENDITURES [4]	28,924	29,175	29,272	29,418	28,355
Transfers Out [5]					
Statutory Transfers to Other State Funds	2,007	2,399	2,473	2,142	2,533
Debt Service Transfers: Capital Bonds	670	540	453	519	469
Debt Service Transfers: Pension Bonds (2003, 2010, & 2011)	564	1,667	1,607	1,552	1,552
Debt Service Transfers: Medicaid Borrowing	63	189	0	0	0
TOTAL OPERATING USES	**32,228**	**33,971**	**33,805**	**33,630**	**32,909**
EXCESS OPERATING SOURCES OVER/(UNDER) USES	**(4,861)**	**(3,808)**	**(183)**	**309**	**1,488**
OTHER FINANCIAL SOURCES (USES)					
Pension Obligation Bonds	3,466	3,680	0	0	0
Railsplitter - Tobacco Revenue Securitization	0	1,250	0	0	0
Short-Term Borrowing	1,250	1,300	0	0	0
Short-Term Borrowing Repayment	(2,276)	(1,322)	0	0	0
Inter-Fund Borrowing	0	496	0	0	0
Inter-Fund Borrowing Repayment	0	(10)	(356)	(147)	(132)
Budget Stabilization Fund Repayment	0	0	(276)	0	0
TOTAL OTHER FINANCIAL SOURCES (USES)	**2,440**	**5,395**	**(632)**	**(147)**	**(132)**
BUDGET BASIS SURPLUS/(DEFICIT)	**(2,421)**	**1,587**	**(814)**	**162**	**1,356**
FUND BALANCE - BEGINNING OF FISCAL YEAR	**(3,673)**	**(6,094)**	**(4,507)**	**(5,013)**	**(5,321)**
FUND BALANCE - END OF FISCAL YEAR	**$ (6,094)**	**$ (4,507)**	**$ (5,321)**	**$ (4,851)**	**$ (3,966)**

*State Revenues in Fiscal Year 2013 Enacted Budget are estimates of the Governor's Office of Management and Budget and Illinois Department of Revenues (See "Fiscal Year 2013 (July 2012- June 2013) - Enacted Budget"). Fiscal Year 2013 spending based on budget passed by the General Assembly and signed by the Governor.

Note: The accompanying footnotes on the following page are an essential part of this statement.

TABLE 1A
FUND BALANCE - RECONCILIATIONS & COMPONENTS
GENERAL FUNDS (BUDGETARY BASIS)

(Dollars in Millions)

	Fiscal Year 2010 Actual Results (June 2011)	Fiscal Year 2011 Actual Results (June 2012)	Fiscal Year 2012 Revised Budget (July 2012)	Fiscal Year 2013 Introduced Budget (May 2012)	Fiscal Year 2013 Enacted Budget (July 2012)
CHANGE IN BUDGET BASIS FUND BALANCE					
BUDGET BASIS FUND BALANCE - BEGINNING OF FISCAL YEAR	$ (3,673)	$ (6,094)	$ (4,507)	$ (5,013)	$ (5,321)
Budget Basis Surplus/(Deficit)	(2,421)	1,587	(814)	162	1,356
BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR	**(6,094)**	**(4,507)**	**(5,321)**	**(4,851)**	**(3,966)**
CHANGE IN CASH BALANCE					
GENERAL FUNDS CASH BALANCE - BEGINNING OF FISCAL YEAR	280	130	469	469	40
Budget Basis Surplus/(Deficit)	(2,421)	1,587	(814)	162	1,356
Increase/(Paydown) of Accounts Payable	2,271	(1,248)	385	(162)	(1,356)
GENERAL FUNDS CASH BALANCE - END OF FISCAL YEAR [6]	130	469	40	469	40
BUDGET STABILIZATION FUND CASH BALANCE - END OF FISCAL YEAR [7]	0	0	276	276	276
TOTAL CASH BALANCE - END OF FISCAL YEAR	**130**	**469**	**316**	**745**	**316**
CHANGE IN ACCOUNTS PAYABLE					
ACCOUNTS PAYABLE - BEGINNING OF FISCAL YEAR	3,953	6,224	4,976	5,482	5,361
Increase/(Paydown) of Accounts Payable due to Surplus/(Deficit) [8]	2,271	(1,248)	385	(162)	(1,356)
ACCOUNTS PAYABLE - END OF FISCAL YEAR	**6,224**	**4,976**	**5,361**	**5,320**	**4,005**
BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR					
General Funds Cash Balance - End of Fiscal Year	130	469	40	469	40
Less: Accounts Payable - End of Fiscal year	(6,224)	(4,976)	(5,361)	(5,320)	(4,005)
BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR [9]	**$ (6,094)**	**$ (4,507)**	**$ (5,321)**	**$ (4,851)**	**$ (3,966)**

FOOTNOTES - TABLE 1 & 1A

1 Transfers In consists primarily of state lottery and gaming revenues as well as various fees and miscellaneous revenues, initially deposited into other state funds, and subsequently transferred to the General Funds, pursuant to statute. Total Transfers In for FY2010 includes $276 million from the Budget Stabilization Fund that was not reimbursed by the end of the fiscal year as required by statute. (See footnote #7 for further discussion of the Budget Stabilization Fund.)

2 Agency program expenditures are prioritized under seven desired outcomes and goals measured to be most effective at delivering results. For presentation consistency and comparison purposes, fiscal year budgets prior to Budgeting for Results are presented in the same manner. More information is available on GOMB's website, see "STATE OF ILLINOIS - WEBSITE INDEX."

3 General Fund pension contributions of $3,466 million for FY2010, and $3,680 million for FY2011, were made through issuance of approximately $3,466 million in General Obligation Bonds, Taxable Series of January 2010, and approximately $3,700 million in General Obligation Bonds, Taxable Series of February 2011. Bond proceeds were deposited to the Pension Contribution Fund, with two purposes: (1) to reimburse the General Funds for approximately $843 million in FY2010 and $224 million in FY2011, initially paid from the General Funds to the State's five pension systems and prior to the bond issuances noted above, pursuant to a continuing appropriation; and (2) to the State's five pension funds for the remaining balance of General Funds pension contribution required appropriations for each fiscal year. In addition, General Funds pension contributions are net of payments funded by transfers from the State Pension Fund representing resources provided by the Unclaimed Property Trust Fund, pursuant to statute, in the following amounts: $139 million in FY2010, $63 million in FY2011, $230 million (preliminary) in FY2012 and $150 million (budgeted) in FY2013. For presentation consistency and comparison purposes, the FY2010 and FY2011 financial information in Table 1 reflects the amounts for the General Funds pension fund contributions as well as the General Obligation pension bond proceeds, but the actual cash flows in that fiscal year were through the Pension Contribution Fund, as described above.

4 Total Expenditures equal fiscal year budgeted appropriations minus unspent agency appropriations. Unspent appropriations reflect unused spending authority of agencies by the close of the fiscal year.

5 State General Obligation bond debt service payments are made through a separate fund in the state treasury called the General Obligation Bond and Retirment Interest Fund (GOBRI). Monies from the General Funds are transferred monthly to GOBRI in equal increments to provide for the payment of principal and interest on bonds when due. See "SECURITY - STATE FUNDING PAYMENTS."

6 Deficits are financed by reducing Cash balances and/or increasing outstanding Accounts Payable. Surpluses will increase year-end Cash balance and/or reduce outstanding Accounts Payable.

7 The Budget Stabilization Fund (BSF) is used for cash flow timing differences and is consolidated with the General Funds Cash Balance for reporting purposes in the Comprehensive Annual Financial Reports. By statute, any intra-year cash flow borrowings transferred to the General Funds are to be reimbursed by a transfer back to the BSF by June 30th of that fiscal year. As described in footnote #1 above, those reimbursements were not made at the end of FY2010. In addition, Public Act 97-44 authorized deferring the FY2011 restoration until FY2012 which occurred by July 11, 2012, consistent with that Act.

8 Fiscal year Budget Basis Surplus/(Deficit) has the effect of (Decreasing)/Increasing outstanding payables, after reflecting any change in ending Cash balance. Deficits are financed by reducing Cash balances and/or increasing outstanding Accounts Payable. Surpluses will increase year-end Cash balance and/or reduce outstanding Accounts Payable. Budget Basis Accounts Payable excludes incurred liabilities of that fiscal year that do not have sufficient appropriation authority remaining to be paid during the Lapse Period (i.e., 60 days after the close of that fiscal year). However, such incurred liabilities (termed "Section 25 liabilities," pursuant to statute) are reflected in the audited CAFR that is prepared on the basis of generally accepted acounting principles for governments. Historically, Medicaid and group health insurance payments constitute the majority of Section 25 liabilities.

9 Budget Basis Fund Balance at year end is the difference between General Funds Cash and Budget Basis Accounts Payable, both measured at June 30th, with a fund balance deficit resulting when Accounts Payable exceeds General Funds Cash.

TABLE 2
GENERAL FUNDS RECONCILIATION[1]
FISCAL YEAR 2011
($ IN THOUSANDS)

	Cash Basis	Adjustments for Budgetary Basis	Budgetary Basis	Adjustments for GAAP	GAAP Basis
Revenues:					
Income Taxes (net)	$ 13,077,293	$ -	$ 13,077,293	$ (663,925)	$ 12,413,368
Sales Taxes (net)	6,833,036	-	6,833,036	41,477	6,874,513
Public Utility Taxes (net)	1,147,150	-	1,147,150	(19,882)	1,127,268
Federal government (net)	5,324,757	-	5,324,757	3,735,442	9,060,199
Other (net)	1,866,553	-	1,866,553	2,255,545	4,122,098
Total revenues	28,248,789	-	28,248,789	5,348,657	33,597,446
Expenditures:					
Current:					
Health and Social Services	14,295,272	(1,300,378)	12,994,894	5,566,094	18,560,988
Education	9,464,823	(106,754)	9,358,069	357,168	9,715,237
General Government	837,413	(24,420)	812,993	184,673	997,666
Employment and Economic Development	98,678	73,969	172,647	3,096	175,743
Transportation	73,168	5,035	78,203	450,123	528,326
Public Protection and Justice	1,896,759	42,062	1,938,821	395,173	2,333,994
Environment and Business Regulation	78,312	14,286	92,598	56,982	149,580
Debt Service:					
Principal	-	-	-	1,841	1,841
Interest	-	-	-	834	834
Capital Outlays	-	-	-	18,847	18,847
Total expenditures	26,744,425	(1,296,200)	25,448,225	7,034,831	32,483,056
Excess of revenues over expenditures	1,504,364	1,296,200	2,800,564	(1,686,174)	1,114,390
Other sources (uses) of financial resources:					
Transfers-in	7,254,398	173,565	7,427,963	(3,468,369)	3,959,594
Transfers-out	(9,719,460)	(222,377)	(9,941,837)	5,604,688	(4,337,149)
Proceeds from short-term borrowings	1,300,000	-	1,300,000	(1,300,000)	-
Capital lease financing	-	-	-	1,083	1,083
Net other (uses) of financial resources	(1,165,062)	(48,812)	(1,213,874)	837,402	(376,472)
Excess of revenues over expenditures and net other (uses) of financial resources	339,302	1,247,388	1,586,690	(848,772)	737,918
Fund balances (deficit), July 1, 2010	129,866	(6,223,965)	(6,094,099)	(3,395,180)	(9,239,281)
Restatement				421,439	421,439
Fund balances (deficit), July 1, 2010, restated	129,866	(6,223,965)	(6,094,099)	(2,973,741)	(8,817,842)
Increase (decrease) for changes in inventories	-	-	-	67	67
Fund balances (deficit), June 30, 2011	$ 469,168	$ (4,976,577)	$ (4,507,409)	$ (3,822,446)	$ (8,079,857)

[1] Based on information from the Office of the Comptroller.

NOTES TO TABLES 1 AND 1A

The material in Tables 1 and 1A reflect the most current information available as of the date presented. Column titles reflect the fiscal year, the nature of information presented (e.g., actual results, preliminary unaudited results, revised budget, or introduced budget) and the date the respective reports were released. Data is drawn from and reconciled to the audited Traditional Budgetary Financial Report ("TBFR") that is prepared by the Illinois Office of the Comptroller, and audited by the Illinois Office of the Auditor General, using accounting practices prescribed or permitted by the State Comptroller Act, and which are materially different from GAAP as promulgated by the Government Accounting Standards Board ("GASB"), and reflected in the CAFR of the State. The TBFR may be found at the Comptoller's website. See "STATE OF ILLINOIS – WEBSITE INDEX." Key differences between the TBFR used in Tables 1 and 1A and GAAP utilized in preparing the fiscal year CAFR include the following:

- *Revenue Recognition:*
  - The TBFR recognizes as revenues those amounts collected and deposited by June 30 of each fiscal year.
  - The CAFR recognizes as revenues amounts earned but collected and deposited no later than 60 days after the end of the fiscal year.
- *Expenditure and Liability Recognition:*
  - The TBFR recognizes as expenditures and liabilities only those amounts that are appropriated for that fiscal year, and paid no later than 60 days after the end of the fiscal year (statutorily extended to December 31 for Fiscal Years 2010, 2011 and 2012).
  - The CAFR recognizes all expenditures that are incurred and paid, or are legal liabilities of that fiscal year, even if such amounts exceed the appropriations for that fiscal year.
  - "Section 25 Liabilities" – These liabilities reflect the difference in TBFR versus CAFR expenditures when insufficient appropriations exist for incurred liabilities. Section 25 refers to statutory authorization that permits the Comptroller to pay such liabilities after the subsequent fiscal year (See "OTHER GENERAL FUND LIABILITIES").
- *Statutory Transfers:* For purposes of enhancing inter-year comparability, Table 1 eliminates cash management transfers in and cash management transfers out that are of an intra-year nature and that offset each other by fiscal year end.
- *Pension Expenditures:*
  - The TBFR reflects statutorily required contributions. Amounts shown in Table 1 represent only the General Funds portion (approximately 89% of the total required contribution) as certified by each of the 5 State pension systems net of the debt service on the Fiscal Year 2003 General Obligations Pension Obligation Bonds pursuant to the authorizing statute, and net of transfers from the State's Unclaimed Property Trust Fund.
  - For additional differences between statutory funding requirements and GAAP, please see "PENSION SYSTEMS".
- *Scope of General Funds:*
  - The TBFR and Table 1 reflect the General Revenue Fund, the Common School Fund, the Common School Special Fund, the Education Assistance Fund, and the Budget Stabilization Fund.
  - The CAFR also includes Medicaid Provider Assessment Program Funds, as more fully described in Footnote 1 therein. See also "STATE FINANCIAL INFORMATION – GENERAL PURPOSE FINANCIAL STATEMENTS – TABLE 2 - Note 1" below.

Table 2, which is presented above, is a General Operating Funds Reconciliation between cash, budgetary and GAAP basis of accounting for Fiscal Year 2011.

General Purpose Financial Statements – Table 2

The complete General Purpose Financial Statements for Fiscal Year 2011, prepared in accordance with GAAP, have been filed with EMMA and are incorporated herein by reference thereto. Such statements are also available upon request from the Comptroller at (217) 782-6000 or from the Comptroller's webpage. See "STATE OF ILLINOIS – WEBSITE INDEX." These statements were prepared by the Comptroller and examined and certified by the State Auditor General. For Fiscal Year 2010 the Auditor General has expressed an unqualified opinion on the General Purpose Financial Statements. The following explanatory notes should be considered in connection with the review of the General Purpose Financial Statements for Fiscal Year 2011 and in connection with review of Table 2 presented above.

Note 1 – Cash/Budget to GAAP Perspective Difference
On the GAAP basis, the Medicaid Provider Assessment Program Funds, the Income Tax Refund Fund and various other funds are reported as part of the General Fund; whereas, 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 $4,507,409 equals the June 30, 2011 cash balance of $469,168 less cash lapse period expenditures and transfers-out of $4,976,577. Adjustments from the cash basis of accounting for fiscal year 2011 to the budgetary basis include adding fiscal year 2011 lapse period spending and subtracting fiscal year 2010 lapse period spending. 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 2011 "lapsing accounts." In addition, interest on late payments through December 31 is included in lapse period transactions as Public Act 97-0075 extended the lapse period to December 31 for fiscal year 2011. Lapse period transfers are statutory transfers approved on or prior to June 30, 2011 but not made until after June 30, 2011.

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
The June 30, 2011 fund balance for the General Fund has been restated $421,439 from a deficit of $9,239,281, to a deficit of $8,817,842. The restatement was due to the understatement of receivables, combined with a reclassification of funds balances due to the implementation of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

DISCUSSION AND ANALYSIS OF FISCAL YEARS 2010 THROUGH 2013

The information below summarizes for each Fiscal Year 2010 through 2013 overall economic conditions within the State as well as an analysis of both the State's operating budget and capital budget. The reader is referred to Tables 1 and 1A to supplement the budget discussion on each fiscal year.

FISCAL YEAR 2010 (JULY 2009-JUNE 2010) – ACTUAL RESULTS

ECONOMIC CONDITION

After seeing consistent economic growth through the beginning and middle of the decade, Illinois experienced a contraction in calendar years 2008 and 2009 as State real GDP decreased by 0.9% and 2.7%, respectively. The significant pressures of the recession continued to impact the State into Fiscal Year 2010 with rising unemployment and declining economic activity. At the start of Fiscal Year 2010, unemployment in Illinois was at 10.4% and continued to rise through the middle of the fiscal year climbing to 11.2% in January of 2010, the highest during any point of the recession, with non-farm payroll decreasing by 37,000 over the same period. The second half of the fiscal year, however, experienced improvements in State employment as the unemployment rate decreased to 10.3% in June, still above the national level of 9.5%. Increasing jobless claims affected total personal income with declines in four consecutive quarters before rebounding, along with the unemployment rate, in the second half of the fiscal year.

State private industry output decreased by 3.1% over the first half of Fiscal Year 2010, compared to the previous year, with construction, manufacturing, and retail trade industries experiencing the greatest impact. Wages and salaries grew steadily each quarter of the fiscal year with an overall growth of 2.2% after decreasing by 5.5% in Fiscal Year 2009.

Negative sentiment on the economy impacted consumer spending as taxable sales decreased by 2.6% over the previous fiscal year. The effect was evident in the first half of the fiscal year as the continued recession impacted holiday sales activity with sales in October, November and December 4.2% below the same period the previous year.

BUDGET ANALYSIS

Revenues

The effects of the economic recession were visible in tax revenue collections as total State resources fell by $1,778 million or 6.1% from the Fiscal Year 2009 level, to $27,366 million. State Source revenues were down 7.9% highlighted by decreases in the State's three major tax revenues: individual income tax (-7.7%), corporate income tax (-20.5%), and sales tax (-6.9%). Declining State employment and personal income levels affected individual income tax collections as three of four quarters in Fiscal Year 2010 were below the heavily impacted recessionary quarters of Fiscal Year 2009. Corporate income taxes fell below 2009 levels for each quarter before slightly increasing during the final quarter of the fiscal year.

Decreased consumer spending affected State sales taxes as revenues fell $465 million or 6.9% below the previous year to $6,308 million; however, the decline was weighted toward the first half of the fiscal year as sales tax increased over the second half of the year. Other notable differences in cash receipts include decreases in investment income (down $55 million or 67.9%), inheritance tax receipts (down $45 million or 15.6%), Cook County inter-governmental transfers (down $9 million or 3.6%) and insurance taxes (down $12 million or 3.6%). Public utility taxes declined $79 million primarily due to a decrease of $44 million in telecommunications tax receipts as a result of a general increase in nontraditional communication modes. Additionally, gas tax receipts and electric tax receipts both decreased by $13 million and $22 million, respectively.

Federal source revenues totaled $5,920 million, a $647 million or 9.9% decrease from Fiscal Year 2009, including receipts of $1,727 million from the American Recovery and Reinvestment Act of 2009 ("ARRA"). The Fiscal Year 2010 decrease is attributed to one-time Federal receipts in 2009 associated with a supplemental appropriation that was passed by the General Assembly for expedited payments to Medicaid providers to ensure compliance with ARRA requirements. A portion of Medicaid appropriations were also shifted to the Healthcare Provider Relief Fund at the end of Fiscal Year 2010 resulting in decreased matching federal revenues into the General Funds.

Transfers In to the General Funds from other State funds increased by $520 million, or 32.7%, over Fiscal Year 2009 to $2,112 million. The increase is attributed to $110 million in transfers from the newly created Capital Projects Fund (Public Act 96-34 – July 13, 2009) revenues, which first pays debt service on bonds issued under the Illinois Jobs Now! capital program and transfers excess funds to the General Revenue Fund. Declines in economically sensitive State source revenues led the General Assembly to pass Public Act 96-44 authorizing special fund transfers in order to improve cash balances in the General Funds. Total one-time transfers of $283 million were made to the General Funds from several other State funds in Fiscal Year 2010. Increased transfers from the Capital Projects Fund and special fund transfers were offset by reductions of $151 million from multiple other State funds.

Expenditures

Total General Funds spending in Fiscal Year 2010 decreased by $731 million or 2.2% to $32,228 million. Budgeted appropriations were lower than the previous fiscal year by $3,928 billion or 12.9%, primarily due to pension contributions for Fiscal Year 2010 not funded out of State General Funds. Pension contributions were made through a bond issuance of $3,466 million authorized by the General Assembly under Public Act 96-43. Prior to the issuance, the General Funds made payments of $843 million to the State pension systems and were subsequently reimbursed by the proceeds of the bonds. Final Fiscal Year 2010 expenditures thus did not include any contributions to the State pension systems from the State General Funds. Medicaid appropriations through the Department of Healthcare and Family Services were also lower in Fiscal Year 2010 by $1,789 million. A supplemental appropriation was passed in Fiscal Year 2009 to make timely payments to certain Medicaid providers to qualify for the enhanced federal Medicaid match under ARRA.

Fiscal Year 2010 Transfers Out totaled $3,304 million, which was $120 million or 5.5% above Fiscal Year 2009. Transfers of an additional $94 million were made to the Public Transportation Fund over the previous fiscal year for service payments to the Regional Transit Authority. Debt service transfers for GO Bonds to the State's debt service fund, the General Obligation Retirement and Interest Fund, increased by $34 million for capital bonds and $98 million for the Pension Obligation Bonds. In April 2010, the State issued $246 million of General Obligation special purpose bonds for the purpose of funding Medicaid payments subject to the enhanced federal participation under ARRA. These bonds were retired in March of 2011 and debt service transfers from General Funds of $63 million and $189 million were made in Fiscal Year 2010 and 2011, respectively. Included in Transfers Out are $940 million of cash transfers that were not executed to other State funds as of June 30, 2010 due to a shortfall in the General Funds at the end of the fiscal year. These transfers were executed at the beginning of Fiscal Year 2011.

Cash Flow

Operating revenues and Transfers In were below total expenditures in Fiscal Year 2010 resulting in a budget basis operating deficit of $4,860 million. The fiscal year operating deficit contributed to the total budget basis accounts payable with an increase of $2,271 million over the previous fiscal year to $6,224 million.

Until Fiscal Year 2010, the lapse period expired on August 31, two months following the end of the fiscal year. For both Fiscal Year 2010 and 2011, due to the large obligations still outstanding at the end of the fiscal year, the General Assembly extended the lapse period until December 31 following the end of the fiscal year. (Any extension of the lapse period for Fiscal Year 2012 and any subsequent fiscal year would require future legislative action by the General Assembly.)

Through the extended lapse period, proceeds were used from both external and internal borrowings as well as Fiscal Year 2011 tax revenues to pay outstanding obligations. General Obligation Certificates of $1,300 million were issued under the Short Term Borrowing Act in July 2010 to pay down 2010 vouchers outstanding past the end of the fiscal year. These certificates were issued in three separate tranches and were paid in April, May and June of 2011. Public Act 96-958 also created the Railsplitter Tobacco Settlement Authority and authorized the sale of the State's tobacco settlement proceeds to the Authority. The Authority securitized a portion of the total tobacco settlement payments and issued $1,503 million tobacco bonds in December 2010. The General Funds in Fiscal Year 2011 received $1.3 billion through the short-term borrowing, $1.25 billion from the sale of tobacco securitization bonds, $496 from inter-fund borrowing, and $717 million in revenues from the tax amnesty program to assist with the payment of prior year outstanding obligations as well as payments for Fiscal Year 2011.

General Funds cash at June 30, 2010 for Fiscal Year 2010 was $130 million. Reflecting liquidity needs, the Budget Stabilization Fund, which is used for working cash purposes during each fiscal year, was not replenished by the budgeted cash transfer from the General Funds as of the close of Fiscal Year 2010 but at the beginning of Fiscal Year 2011.

FISCAL YEAR 2010 CAPITAL BUDGET

Illinois Jobs Now!, the State's first capital bill in over 10 years, is a $31 billion multi-year program that emphasizes job creation and retention, economic stimulus, and accessing federal ARRA dollars while making crucial investments in the State's schools, roads, bridges, airports, and transit system.

In Fiscal Year 2010 new appropriations from current revenues of $3,304 million was planned for highway, road, bridge, rail, and airport construction; as well as $535 million for environmental projects; $1,022 million for inland ports; $13 million for economic development; and $1 million for state facilities. In Fiscal Year 2010 bond financed appropriations were in the amount of $7,134 million for highway, road, bridge, rail, and airport construction; $844 million for energy, environment, and technology projects; $866 million for economic development; $1,488 million for higher education projects; $1,675 million for pre-K-12 projects; $811 million for inland ports; $1,119 million for next generation projects; and $792 million for state facilities. Collectively, total new appropriations from bond financed and current revenue sources for Fiscal Year 2010 were $19,604 million.

The remainder of the Fiscal Year 2010 Capital Budget contained prior year re-appropriations totaling $11,294 million. Re-appropriations are made in each year's capital budget of multi-year State projects funded through bond financing as well as State revenues over the following several fiscal years. The total re-appropriations, included in the Fiscal Year 2010 Capital Budget, to be supported through bond financing, were $3,576 million, which includes $2,940 million of GO Bonds and $636 million of Build Illinois bonds. Total capital re-appropriations funded out of current revenues were $7,718 million.

FISCAL YEAR 2011 (JULY 2010 – JUNE 2011) – ACTUAL RESULTS

ECONOMIC CONDITION

Illinois' economy experienced a rebound following the recession of 2008 and 2009 as economic activity and employment both improved within the State. At the beginning of Fiscal Year 2010, the unemployment rate in Illinois was 10.1 percent, near the highest in the nation, but by year-end had decreased on par with national employment rate of 9.1 percent. Over the same period, non-farm payroll employment increased by 77,000 with consistent month to month growth over the fiscal year. Compared to the declines experienced in Fiscal Year 2010, personal income grew by 5.8% in 2011, coinciding with decreasing unemployment and higher economic activity.

After consecutive contractionary periods of the two previous calendar years, economic output in Illinois once again increased in 2010 as State real Gross Domestic Product grew by 1.9%. The manufacturing, retail trade, finance, and information industries, among others, saw positive growth; however, construction continued its decline for the third consecutive year. Wages and salaries rose 3.9% in 2011 and reached pre-recession levels in the final quarter of the fiscal year.

The State's three major tax revenues experienced growth in Fiscal Year 2011 after five consecutive quarters of decline leading into the fiscal year. Total taxable sales in Illinois increased by 6.9 percent in Fiscal Year 2011, with the extent of the growth attributable to higher general retail sales and motor vehicle and fuel sales.

BUDGET ANALYSIS

Revenues

Total State Operating Revenues and Transfers In for Fiscal Year 2011 totaled $30,163 million, a $2,797 million or a 10.2% increase over Fiscal Year 2010. The increase is attributed to several one-time revenue enhancements, and more significantly, fundamental changes to State income tax rates. The enhancements, provided for by the authorization of the General Assembly, included the ability to borrow from other State funds ($496 million) and accelerated collection of back taxes (as discussed below) owed to the State ($717 million). Increases to the individual and corporate income tax rates produced $3,205 million in additional revenues over the previous fiscal year.

On January 11, 2011, the Governor signed into law Public Act 96-1496, increasing the State individual income tax from 3% to 5% and the corporate income tax from 4.8% to 7.0%. The new tax rates will be effective until January 1, 2015, when the individual and corporate income tax rate will decline to 3.75% and 5.25%, respectively (See "Tax Review"). The tax increase became effective on January 1, 2011; therefore revenues corresponding to the higher tax rate were only realized for the second half of the fiscal year. Under the tax amnesty program, authorized by Public Act 96-958, Illinois taxpayers who paid eligible back taxes during the amnesty period, which ran from October 1 to November 8, 2010, received a waiver of all associated interest and penalties. Participants were motivated by the fact that on November 9, the day after the amnesty ended, penalties and interest on unpaid back taxes doubled. The State received amnesty payments from over 78,000 taxpayers and collected $717 million in amnesty payments.

Total State Source revenues, with the effect of the higher income tax rates and the tax amnesty program, increased by $3,586 million or 18.5% to $22,920 million from Fiscal Year 2009. Individual income taxes totaled $11,225 million in fiscal year 2011, or 31.9% over Fiscal Year 2010, and corporate income taxes totaled $1,851 million, or a 36.1% increase from the previous fiscal year. Excluding the effects of the tax increase and amnesty program, individual and corporate income taxes still increased by approximately 2.5% and 15.3%, respectively. The increase from Fiscal Year 2010 base revenues is attributed to the upward swing in the State economy supported by higher employment as well as increase in corporate profits and real GDP growth.

Sales taxes experienced stronger than projected growth in Fiscal Year 2011 with an increase of $525 million or 8.3% to $6,833 million. One-time revenues from the tax amnesty program accounted for $164 million of the total increase for sales tax. Sales tax receipts were higher in the second half of the fiscal year corresponding to increased gas prices and overall stronger retail sales in the third and fourth quarter of the fiscal year. All other State receipts were down $144 million or 4.6 percent primarily due to a decline in inheritance tax collections by $121 million from the repeal of the federal estate tax that was also coupled to the Illinois estate tax law.

Federal Source revenues decreased by $534 million or 9% over the previous fiscal year to $5,386 million primarily to decreased Medicaid matching dollars coming into the General Funds due to a budgetary decision to move certain Medicaid expenditures to other State funds. Federal reimbursements are received in relative proportion to State Medicaid spending hence a reduction in fund expenditures consequently reduces federal matching revenues in to that fund.

Total Transfers In decreased by $302 million or 14.0% primarily due to increased inter-fund borrowings from other State funds provided by authorization under PA 96-958. In addition, the General Funds received increased statutorily required transfers from the Capital Projects Fund as a result of higher fund balances from its first full year of tax revenues.

Expenditures

Fiscal Year 2011 total expenditures and Transfers Out equal $33,971 million, which is $1,743 million or 5.4% higher than Fiscal Year 2010. Expenditures from appropriations, excluding pension contributions increased by $37 million to $25,495 million as the majority of the total spending increase is due to higher Transfers Out. Compared to the prior fiscal year, programmatic funding for State primary and secondary education experienced the largest difference as spending decreased by $302 million or 4.1% due to a reduction of general State aid to school districts provided by the Federal government under ARRA. Pension contributions, as in Fiscal Year 2010, were made through the issuance of bonds as General Funds were not utilized for any portion of the contribution. The issuance was executed March 10, 2011, with total proceeds of $3,680 million.

Transfers Out, including inter-fund borrowing, totaled $4,805 million, a $1,501 million increase from Fiscal Year 2010. Due to the expiration of the enhanced Medicaid match under ARRA, the State prioritized all Medicaid provider payments at the end of the fiscal year ahead of other outstanding vouchers. The General Assembly passed Public Act 97-44 in June of 2011 allowing for the repayment of the Budget Stabilization Fund after the end of Fiscal Year 2011 and authorizing the transfer of $365 million to the Healthcare Provider Relief Fund to maximize Medicaid vendor payments to capture additional federal revenues before the expiration of the program. Debt service payments were the primary source of the increase in total Transfers Out as the first interest and principal payments on the 2010 Pension Bonds were made in Fiscal Year 2011.

Cash Flow

One time revenue enhancements were used in the first half of Fiscal Year 2011, as discussed in "Fiscal Year 2010", to pay outstanding obligations for Fiscal Year 2010. Additionally, Fiscal Year 2011 revenues were used toward paying down Fiscal Year 2010 obligations causing certain expenditures incurred in 2011 to be delayed to the latter part of the fiscal year. The State once again executed a borrowing to pay the Fiscal Year 2011 pension contribution, General Obligation Bonds Taxable Series of February 2011, as total State resources were insufficient to make contributions out of General Funds without reducing other appropriations by the statutory amount of that contribution.

The State began Fiscal Year 2011 with a budget basis accounts payable balance of $6,224 million. Increases in the individual and corporate income taxes, though effective only for half of the fiscal year, contributed to lowering total accounts payable by fiscal year end (June 30, 2011) to $5,148 million. As described above under "FISCAL YEAR 2010—Budget Analysis—*Cash Flow*", the lapse period for Fiscal Year 2011 was also extended by the General Assembly to December 31, 2011 to allow additional time for the receiving, processing and payment of Fiscal Year 2011 obligations.

The final and audited Comprehensive Annual Financial Report and Traditional Budgetary Financial Report (TBFR) for Fiscal Year 2011 are available on the Comptroller's website (See "Website Index"). The final TBFR reports a Budget Basis Fund Balance deficit for the General Funds of $4,507 million whereas Table 1 previously reflected this deficit as $4,679 million. In addition, the final TBFR reports Accounts Payable in the amount of $4,976 million whereas Table 1 and Table 1A previously reflected Accounts Payable in the amount of $5,148 million. The difference between these amounts reported in the final TBFR and the prior versions of Table 1 and Table 1A results from the TBFR's reporting Transfers In, as of June 30, 2011, of approximately $172 million from the Capital Projects Fund that were not reflected on Table 1 and Table 1A.

FISCAL YEAR 2011 CAPITAL BUDGET

The Fiscal Year 2011 Capital Budget was a continuation and extension of the Illinois Jobs Now! program. The total Fiscal Year 2011 Capital Budget was $28,236 million which takes into account the re-appropriation write downs of prior years' spending.

In Fiscal Year 2011 new appropriations from current revenues of $2,196 million were for highway, road, bridge, rail, and airport construction, as well as $495 million for environmental projects, and $1 million for State facilities. An additional $203 million in bond financed appropriations for the following: $146.5 million for highway, road, bridge, rail, and airport construction; $22.5 million for Energy and Environment projects; and $34 million for economic development. Collectively, total new appropriations from bond financed and current revenue sources for Fiscal Year 2011 were $2,896 million.

The remainder of the Fiscal Year 2011 Capital Budget contained prior year re-appropriations totaling $25,340 million. Re-appropriations are made in each fiscal year's capital budget of multi-year State projects funded through bond financing as well as State revenues over the following several fiscal years. The total re-appropriations included in the Fiscal Year 2011 Capital Budget, to be supported through bond financing, were $17,198 million, which includes $14,372 million of GO Bonds and $2,826 million of Build Illinois bonds. Total capital re-appropriations funded out of current revenues were $8,142 million, including prior federal funding of $696 million.

FISCAL YEAR 2012 (JULY 2011 – JUNE 2012) – REVISED BUDGET

ECONOMIC CONDITION

The Illinois unemployment rate decreased since the height of the recession and reached a low of 8.7% in April of 2011 but climbed to 9.5% at the beginning of Fiscal Year 2012. With continuing uncertain economic conditions and the downgrade of the U.S. credit rating by Standard and Poor's in August 2011, Illinois unemployment rate reached a high of 10.2%. Employment conditions have since improved within the State as unemployment decreased over the second half of the fiscal year ending the year at 8.6%, this even as the labor force grew steadily over the same period of time.

Personal income which grew in each of four previous quarters prior to the beginning of Fiscal Year 2012, leveled in the first two quarters of Fiscal Year 2012, coinciding with the uncertain economy and higher jobless rates. Real GDP increased in calendar year 2011, including the first half of Fiscal Year 2012, by 1.3% over the previous. Strong retail sales activity led to increases in total taxable sales of 2.8% and 4.0% in quarters two and three of Fiscal Year 2012 over the same quarters in the previous fiscal year.

BUDGET ANALYSIS

Revenues

Total Operating Revenues and Transfers In increased by $3,460 million or 11.5% from Fiscal Year 2011 to $33,623 million. Growth in total fiscal year revenues is primarily attributed to higher individual and corporate income tax receipts that increased by $4,287 million (38.2%) and $610 million (32.9%), respectively, over Fiscal Year 2011. This reflects a full year of tax revenues under higher income tax rates that took effect in the middle of the previous fiscal year. Additionally, income tax revenues were higher than anticipated in the last two quarters of the Fiscal Year as March and April withholding receipts exceeded expectations. Sales tax revenues grew by $393 million or 5.7% to $7,226 million as strong sales activity and higher motor fuel prices contributed to higher collections in Fiscal Year 2012. All other state source receipts on a combined basis decreased by $32 million or 1.1%.

Federal revenues decreased by $1,704 million or 31.6% from Fiscal Year 2011 to $3,682 million. The decrease is attributed to a variety of factors including, the end of Federal stimulus dollars paid to the State under ARRA, the acceleration of Medicaid payments from Fiscal Year 2012 to Fiscal Year 2011 to take advantage of the enhanced Federal matching dollars available until June 30, 2011, a shift of Medicaid spending to other State funds and subsequent decrease in matching Federal dollars, and a reduction in Medicaid appropriations over the previous fiscal year resulting in decreased Federal matching revenues (See "OTHER GENERAL FUND LIABILITIES"). Additionally, Medicaid matching revenues were deducted by the Federal government from back payments owed by the State on Medicare premium payments for Medicare/Medicaid dual eligible enrollees. Transfers In decreased by $94 million or 5.1% due to a decrease in transfers from the Capital Projects Fund over the previous fiscal year.

Expenditures

Fiscal Year 2012 Total Operating Expenditures and Transfers Out are estimated to decrease by $166 million or 0.49% over Fiscal Year 2011 to $33,805 million reflecting reductions in agency budgets across the State. Total spending from appropriations, excluding State pension contributions, is estimated to decrease by $359 million or 1.2% as spending reductions were made in nearly all major areas over the previous fiscal year, including general state aid to education, social service programs, and operational, administrative and personnel expenses within State agencies. Compared to the two previous fiscal years, the State pension contribution was made from General Funds and not through bond financing.

The State Pension contribution from General Funds for Fiscal Year 2012 is $4,135 million which is $455 million or 12.4% higher than previous fiscal year. Total Transfers Out are expected to increase by $360 million or 7.5% to $5,165 million. These transfers from the General Funds include $160 million to the Healthcare Provider Relief Fund and $140 million to the Hospital Provider Relief Fund for Medicaid service providers. The increase in transfers is also attributed to the repayment of inter-fund borrowings and the Budget Stabilization Fund from Fiscal Year 2011 that were deferred into Fiscal Year 2012. Actual budgetary transfers for debt service were below mid-year estimates as the State undertook a refunding of certain outstanding General Obligation bonds at lower interest rates.

Current estimated total spending for the fiscal year is $2,381 million below the spending cap that was established as part of the income tax increase under Public Act 96-1496. The State is required to stay below the spending limitation for Fiscal Year 2012 of $36,818 million. If final expenditures were to exceed the spending cap, as determined by the Auditor General of the State, the individual and corporate income tax rates would revert back to 3% and 4.8%, respectively, or prior to the rate increases established by Public Act 96-1496. Based on current estimates of expenditures for Fiscal Year 2012, the Budget Basis Operating Deficit is estimated to be $814 million.

Cash Flow

Compared to the Fiscal Year 2011 budget, Fiscal Year 2012 resources were derived solely from State and federal sources and no other one-time revenue enhancements, including no inter-fund, short-term or pension obligation borrowings. As in the previous two fiscal years, the lapse period for Fiscal Year 2012 was extended under Public Act 97-732 to December 31st 2012. Extension of the lapse period allows for payment of Fiscal Year 2012 bills through the end of December for services incurred prior to June 30th. As of June 30, 2012, the total estimated amount of outstanding bills, in addition to bills expected to be received during the lapse period, is $5,146 million.

Reflected in Other Financial Sources (Uses) section of Table 1, payments of $356 million were made to other State funds for Inter-Fund Borrowing performed in Fiscal Year 2011. Under Public Act 97-44, the repayment of the Budget Stabilization Fund borrowing in Fiscal Year 2011 was deferred to Fiscal Year 2012 to allow maximum available resources for Medicaid purposes before expiration of the enhanced federal match under ARRA.

As shown in Tables 1 and 1A, the current end of year Budget Basis Operating Deficit is forecast at $814 million. The deficit will be financed through an increase in accounts payable and use of previous fiscal year end cash balances.

FISCAL YEAR 2012 CAPITAL BUDGET

The total Fiscal Year 2012 Capital Budget is $26,047 million which takes into account the re-appropriations write downs of prior years' spending. In Fiscal Year 2012, new appropriations from current revenues of $2,146 million were for highway, road, bridge, rail, and airport construction, as well as $468 million for environmental, energy, and technology projects. An additional $5 million in bond financed appropriations were for economic development. In Fiscal Year 2012, various Illinois Jobs Now! appropriations were repurposed, including $309 million for State facilities, $17 million for energy, and $33 million for air transportation. Collectively, total new appropriations from bond financed and current revenue sources for Fiscal Year 2012 were $2,978 million.

The remainder of the Fiscal Year 2012 Capital Budget contains prior year re-appropriations totaling $23,069 million. Re-appropriations are made in each fiscal year's capital budget of multi-year State projects funded through bond financing as well as State revenues over the following several fiscal years. The total re-appropriations included in the Fiscal Year 2012 Capital Budget, to be supported through bond financing, are $14,981 million, which includes $12,382 million of GO Bonds and $2,599 million of Build Illinois bonds. Total capital re-appropriations funded out of current revenues is $8,088 million, including total prior federal funding of $733 million.

FISCAL YEAR 2013 (JULY 2012 – JUNE 2013) – ENACTED BUDGET

The following discussion on State revenue estimates and the revenues reflected on Table 1 are based on the estimation methodology and econometric modeling of the Illinois Department of Revenue and Illinois Department of Employment Security. The Fiscal Year 2013 Enacted Budget that was passed by the General Assembly and signed into law by the Governor is based on revenue estimates of $33,719 million provided in House Joint Resolution 68. Under Public Act 96-958, the State's budget process requires establishing fiscal year revenue estimates prior to determining spending objectives. All appropriations and expenditures discussed below and reflected in Table 1 are based on the budget approved by the General Assembly and signed into law by the Governor. The following table provides the time of update for Fiscal Year 2013 budgetary information presented in Table 1.

STATE SOURCE REVENUES	February 2012 – Governor's Introduced Budget
FEDERAL REVENUES	July 2012 – Enacted Budget
TRANSFERS IN	July 2012 – Enacted Budget
TOTAL OPERATING USES	July 2012 – Enacted Budget

BUDGET ANALYSIS

Revenues

Total State Operating Revenues and Transfers In from other State funds are estimated to total $34,398 million for the Fiscal Year 2013 Enacted Budget, a $775 million or 2.3% increase over current revenue estimates for Fiscal Year 2012. State revenues sources, including the State's three primary sources, individual income tax, corporate income tax and sales tax, are projected to total $28,205 million. Due to stronger than anticipated receipts in the second half of Fiscal Year 2012, final individual income tax revenues for Fiscal Year 2012 are currently higher than projected Fiscal Year 2013 collections. Forecasts provided by the Illinois Department of Revenue project growth in wages and salaries of 3% over the previous fiscal year. Tax revenue estimates for Fiscal Year 2013 may be revised based on actual collections within the fiscal year. To pay for individual income tax refunds, 9.75% of total individual income tax revenues in Fiscal Year 2013 will be diverted to the Income Tax Refund Fund from the General Funds.

Corporate income tax revenues are projected to total $2,550 million, a 3.6% increase over Fiscal Year 2012. This projection reflects 14% of total corporate income tax revenues diverted to the Income Tax Refund Fund for payment of corporate income tax refunds. Downward adjustments were made to Corporate Income Tax projections due to federally permitted accelerated depreciation of assets as well as tax incentives provided to Sears Corporation and Chicago Mercantile Exchange (Public Act 97-636). Sales taxes are forecasted to total $7,335 million in Fiscal Year 2013, an increase of $109 million or 1.5%. Strong projected motor vehicle and retail sales combined with high motor fuel prices are factored into increased sales tax revenue projections. All other State sources are projected to increase by $68 million primarily due to higher public utility and inheritance tax receipts, offset by lower insurance tax and fees.

Federal Revenues, primarily driven by state Medicaid spending and matching federal monies, are projected to increase by $549 million or 14.9% to $4,231 million. This is due to an increase in Fiscal Year 2012 Medicaid expenditures in the lapse period resulting in increased federal match monies for Fiscal Year 2013. As State revenues are recognized on a cash basis, federally matched monies received for expenditures occurring after June 30th will be recorded in the following fiscal year. Additionally, a backlog of Medicare premium payments owed by the State for Medicare/Medicaid dual-eligible enrollees resulted in a reduction by the federal government of the State's Medicaid match monies in Fiscal Year 2012. Transfers In are projected to increase by $199 million to $1,962 million. This is primarily due to $264 million in transfers from the newly created Backlog Payment Fund (Public Act 97-685) for payment of non-Medicaid related outstanding bills offset by small reductions in other statutory transfers.

Expenditures

Total Operating Expenditures and Transfers Out for the Fiscal Year 2013 Enacted Budget are estimated to decrease by $896 million or 2.6% to $32,909 million over Fiscal Year 2012 estimated expenditures. Expenditures for the enacted budget are also below the Governor's Introduced Budget by $721 million. As mentioned above, Fiscal Year 2013 spending levels were based on revenue estimates established in House Joint Resolution 68 which total $33,719 million. This revenue estimate served as a cap for spending under statutory guidelines provided in Public Act 96-958.

From the Governor's Introduced Budget, the General Assembly made certain notable changes to spending levels for key state programs that are part of the final Enacted 2013 Budget. Appropriations for K-12 and higher education, which were kept level with the prior fiscal year in the Introduced Budget, were reduced. This included reductions to general state aid to local school districts, mandated categorical items such as special education and travel, and grants for early childhood education. These changes are reflected in the "Provide quality education and opportunities for growth" budget objective presented in Table 1. Significant reductions from the Introduced Budget were also made to human services funding with decreased budgeted appropriations for Department of Aging, Children and Family Services and Human Services, all reflected in the "Protect the most vulnerable among us" budget objective. Budgeted appropriations for the state group health insurance program, under the "Improve the efficiency and fiscal stability of state government" objective, were provided for only six months for Fiscal Year 2013. The remaining appropriations for the fiscal year liability may be addressed in the fall 2012 veto session. Failure to fund the remaining fiscal year liability will result in an increase in Section 25 Liabilities that will carry into Fiscal Year 2014. Absent changes in revenues, should such appropriations be approved, the surplus would be adjusted down on Table 1 by approximately $550 million.

The Governor and the General Assembly enacted reforms to the state Medicaid program totaling $2.7 billion. Due to an increasing Medicaid liability in Fiscal Year 2013 and beyond, reforms were enacted to reduce costs and add new revenue sources to address the $2.7 billion in additional Medicaid liability in Fiscal Year 2013. The Medicaid program liability in Fiscal Year 2013, absent these reforms, would have increased by $2.7 billion. Total reforms include: $1.6 billion in 62 spending item reductions, utilization controls and provider rate cuts; $1 per pack cigarette tax increase for $700 million in new revenue for Medicaid funding, a new hospital assessment program that generates $100 million in annual revenues; and $300 million allocated to Medicaid from increased state General Funds revenues.

Pension contributions for Fiscal Year 2013 to the State's five pension systems are estimated to total $5,100 million from the State's General Funds, an increase of $965 million or 23.1%. Contribution to the state pension systems increased between Fiscal Year 2012 and Fiscal Year 2013 as four of the five systems conducted five-year experience reviews of their actuarial assumptions, as required under state pension funding laws, resulting in adjustments to certain assumptions and increased fiscal year contribution requirements.

Transfers Out to other State funds, excluding debt service transfers and inter-fund borrowing repayment and budget stabilization fund repayment, increased by $60 million or 2.4% to $2,533 million. Transfers to the HealthCare Provider Relief Fund were increased to $500 million in Fiscal Year 2013, as compared to $160 million in Fiscal Year 2012, for the payment of outstanding Medicaid bills. These transfers were authorized within the budget for direct payment, and reduction, of outstanding Medicaid payables. Estimated transfers for capital bonds debt service is revised from the Introduced Budget reflecting higher anticipated revenues from other state funds to fund debt service resulting in lower debt service obligation for the General Funds.

The State is required to stay below the fiscal year spending cap established under Public Act 96-1496 of $37,554 million. Based on current Fiscal Year 2013 estimates, State spending will be $4,513 million below this cap. If final expenditures were to exceed the spending cap, as determined by the Auditor General of the State, the individual and corporate income tax rates would revert back to 3% and 4.8%, respectively, or prior to the rate increases established by Public Act 96-1496.

Cash Flow

The Fiscal Year 2013 Enacted Budget does not include any additional non-recurring revenue sources including borrowings and financings to fund the General Funds. The enacted budget includes appropriations and authorized transfers for the purpose of payment of outstanding State bills. As mentioned above, $500 million is authorized to be transferred into the Healthcare Provider Relief Fund to pay outstanding Medicaid bills. The transfer will be cycled repeatedly over the course of the fiscal year under the 50% Federal Medical Assistance Percentage provided to Illinois until $500 million in federal matching monies is achieved. This will allow for the payment of $1 billion in outstanding state Medicaid bills reducing the state's payables backlog classified under Section 25 Liabilities. Appropriations were made to the Illinois Office of the Comptroller in the amount of $264 million to be deposited in to the newly created Backlog Payment Fund which will be dedicated to the payment of outstanding non-Medicaid bills. In total, in Fiscal Year 2013 budgeted appropriations and transfers of approximately $1.3

billion will be dedicated for the payment of outstanding payables in addition to any fiscal year budget surplus.

The second bill of the 2013 Budget Implementation Act (Public Act 97-732) was not passed in the spring session of 2012; however, the bill is expected to be considered in fall 2012 veto session of the General Assembly. The current legislative bill, Senate Bill 2971, includes $229 million in additional transfers out of the General Funds. This includes $151 million to the Healthcare Provider Relief Fund which is a component of the $2.7 billion dollar budget gap for Medicaid described above. Absent changes in revenues, should Senate Bill 2971 be approved in fall veto session, the current surplus will be adjusted down by approximately $229 million.

Other Financial Uses, presented in Table 1, include the repayment of $132 million for Inter-Fund Borrowing performed in Fiscal Year 2011. All monies borrowed as part of the Inter-Fund Borrowing in 2011 (Public Act 96-958) will be fully repaid to other State funds upon completion of the Fiscal Year 2012 payment.

The enacted budget reflects a $1,356 million surplus of total receipts over total disbursements. Absent changes in revenues, should the General Assembly approve the remaining appropriations for the State group health insurance program and pass Senate Bill 2971 (both discussed above), the surplus in the Enacted Budget surplus would be adjusted down by approximately $779 million. Any final fiscal year surplus will be dedicated to the payment of outstanding payables of the State, which are estimated at $5,361 million (on a budgetary basis) at the beginning of the Fiscal Year 2013.

FISCAL YEAR 2013 CAPITAL BUDGET

The total new appropriation for Fiscal Year 2013 from both current revenues and bond funds is $1,987.1 million. This includes $1,643.8 million for highway, road, bridge, rail, inland ports and airport construction, as well as $321.7 million for environmental projects and $2.6 million for state facilities from current revenues. Collectively, total new appropriations from current revenue sources for Fiscal Year 2013 are $1,968.1 million. New bond fund appropriations for economic development are $19 million.

The remainder of the Fiscal Year 2013 Capital Budget contains prior year re-appropriations consisting of both bond funded and current revenue sources totaling $23,155.5 million. The total bond-financed re-appropriations included in the Fiscal Year 2013 Capital Budget are $14,361.3 million, which includes General Obligation Bonds in the amount of $11,879.4 million and Build Illinois Bonds in the amount of $2,481.9 million. Total capital re-appropriations funded out of current revenues is $8,794.2 million.

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 Budget Stabilization Fund. The State transferred $225 million to the Budget Stabilization Fund in July 2001. Public Act 92-11 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. 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, where it remained at June 30, 2009. Reflecting additional liquidity needs, the Comptroller did not repay the Fiscal Year 2010 cash flow borrowing in the amount of $276 million from the Budget Stabilization Fund to the General Revenue Fund as of June 30, 2010. The Fiscal Year 2011 Operating Budget assumed the Budget Stabilization Fund would be restored to the amount of $276 million. However, the General Assembly enacted Public Act 97-44 which authorized deferring this restoration until Fiscal Year 2012 and which restoration occurred by July 11, 2011, consistent with that Act.

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 State Treasury by the Comptroller. Prior to Fiscal Year 1998, disbursements were recognized when payment warrants were issued. Since Fiscal Year 1998, disbursements have been recognized when vouchers have been 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. Since 1981, the Comptroller has issued a CAFR, which includes General Purpose Financial Statements prepared according to GAAP and statements of budgetary fund balances and changes in budgetary fund balances for all fund groups. Under Public Act 97-408, the Comptroller must publish the CAFR for each fiscal year by December 31 of each year or publish unaudited financial statements and a written explanation to State leadership explaining the reasons for the delay beginning with the CAFR for Fiscal Year 2012.

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TABLE 3
CASH RECEIPTS AND DISBURSEMENT[1] - GENERAL FUNDS[2]
FISCAL YEARS 2008-2012
($ IN MILLIONS)

	FY 2008	FY 2009	FY 2010	FY 2011	Preliminary FY 2012
Available Balance, Beginning	**$642**	**$141**	**$281**	**$130**	**$469**
Cash Receipts					
State Revenues					
Income Tax	$12,180	$10,933	$9,871	$13,076	$17,973
Sales Tax	7,215	6,773	6,308	6,833	7,226
Public Utility Tax	1,157	1,168	1,089	1,147	995
Cigarette Tax	350	350	355	355	354
Inheritance Tax	373	288	243	122	235
Liquor Gallonage Tax	158	158	159	157	164
Insurance Tax & Fees	298	334	322	317	345
Corporate Franchise Tax	225	201	208	207	192
Investment Income	212	81	26	28	21
Intergovernmental Transfers	302	253	244	244	244
Other	474	445	462	434	428
Total, State Revenues	$22,944	$20,984	$19,287	$22,920	$28,177
Federal Revenues					
Medicaid & Social Services	$4,815	$6,567	$5,920	$5,386	$3,682
Transfers In					
From Other State Funds[3]	$1,900	$1,593	$1,884	$2,181	$1,938
Total Revenues	**$29,659**	**$29,144**	**$27,090**	**$30,487**	**$33,797**
Short-Term Borrowing	$2,400	$2,400	$1,250	$1,300	$ -
Tobacco Securitization				1,250	-
Proceeds from Pension Obligation Note Borrowing	-	-	843	224	-
Total Cash Receipts[3]	**$32,059**	**$31,544**	**$29,183**	**$33,261**	**$33,797**
Cash Disbursements					
Expenditures for Appropriations					
Operations	$6,906	$7,332	$6,381	$7,113	$9,202
Awards and Grants	20,247	22,035	18,529	18,511	20,063
Permanent Improvements	10	5	2	-	5
Refunds	18	15	-	-	12
Vouchers Payable Adjustment	(208)	(2,392)	(952)	918	87
Prior Year Adjustments	(14)	(14)	(17)	(22)	(88)
Pension Obligation	-	-	843	224	-
Transfers Out					
Short-Term Borrowing[4]	$2,400	$1,424	$2,000	$1,322	$ -
Debt Service Funds[5]	1,132	1,102	1,313	2,396	2,071
Other State Funds[3]	2,069	1,897	1,235	2,460	2,874
Total Cash Disbursements	**$32,560**	**$31,404**	**$29,334**	**$32,922**	**$34,226**
Cash Balance, Ending	**$141**	**$281**	**$130**	**$469**	**$40**

[1] Based on information from the Illinois Office of the Comptroller.

[2] General Funds include the General Revenue Fund, Common School Fund, General Revenue-Common School Special Account Fund and the Education Assistance Fund.

[3] Excludes transfers to and from the Budget Stabilization Fund.

[4] See "INDEBTEDNESS" section for additional information.

[5] Reflects debt service on GO Bonds and interest due on Pension Obligation Notes.

TABLE 4
CASH RECEIPTS AND DISBURSEMENTS[1] - ROAD FUND
FISCAL YEARS 2008-2012
($ IN MILLIONS)

	FY 2008	FY 2009	FY 2010	FY 2011	Preliminary FY 2012
Available Balance, Beginning	**$421**	**$388**	**$418**	**$554**	**$710**
Cash Receipts					
State Revenues					
Motor Vehicle & License Fees	747	772	762	757	756
Certificates of Title	85	77	74	76	79
Property Sales (City & County)	72	68	76	80	68
Miscellaneous	73	124	558	315	169
Total, State Revenues	$978	$1,041	$1,471	$1,228	$1,072
Federal Revenues	1,257	1,234	1,276	1,467	1,497
Transfers In					
Motor Fuel Fund	335	317	300	307	297
Other Funds	-	-	-	6	22
Total Cash Receipts	**$2,570**	**$2,593**	**$3,047**	**$3,007**	**$2,888**
Cash Disbursements					
Expenditures for Appropriations	2,312	2,285	2,575	2,403	2,438
Transfers Out					
Debt Service Funds[2]	258	245	296	392	333
Other State Funds	32	35	39	56	39
Total Cash Disbursements	**$2,602**	**$2,564**	**$2,911**	**$2,851**	**$2,809**
Cash Balance, Ending	**$388**	**$418**	**$554**	**$710**	**$789**

[1] Based on information from the Office of the Comptroller.

[2] Reflects debt service on GO Bonds.

TABLE 5
GENERAL FUNDS APPROPRIATIONS[1]
FISCAL YEARS 2008-2013
($ IN MILLIONS)

	FY08 Actual	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Preliminary	FY13 Enacted
CATEGORY - BY STATE AGENCY						
State Board of Education	$7,106	$7,445	$7,325	$7,020	$6,750	$6,541
Higher Education	2,215	2,466	2,233	2,159	2,092	1,980
Healthcare & Family Services (Public Aid)	8,117	9,642	7,853	7,641	6,845	6,804
Revenue	158	164	143	139	126	111
Human Services	4,135	4,228	4,047	3,901	3,461	3,256
Corrections	1,236	1,351	1,177	1,210	1,222	1,137
Children & Family Services	897	914	865	847	813	707
Central Management Services	84	76	90	96	1,487	582
State Police	217	28	287	277	274	248
Other Agencies	3,372	3,968	2,334	2,556	6,512	7,639
State Agencies Appropriations	**$27,538**	**$30,282**	**$26,354**	**$25,845**	**$29,583**	**$29,005**
Unspent Appropriations (Salvage)	-$385	-$507	-$896	-$350	-$311	-$650
Net Appropriations (Spending)	**$27,153**	**$29,775**	**$25,458**	**$25,495**	**$29,272**	**$28,355**
CATEGORY - BY BUDGET OUTCOMES[2]						
Provide a quality education and opportunities for growth	$10,510	$11,512	$9,663	$9,298	$12,102	$12,551
Enhance the economic well-being of citizens	320	149	176	188	94	78
Protect the lives and property of citizens	1,505	1,631	1,518	1,649	1,533	1,433
Protect the most vulnerable among us	5,888	6,111	5,940	5,827	5,404	5,123
Improve access to and cost effectiveness of healthcare	8,117	9,642	7,853	7,641	6,845	6,804
Improve the quality of life for citizens	97	81	76	82	68	62
Improve the efficiency and fiscal stability of State Government	1,099	1,155	1,127	1,162	3,536	2,955
Budget Outcomes Appropriations	**$27,538**	**$30,282**	**$26,354**	**$25,845**	**$29,583**	**$29,005**
Unspent Appropriations (Salvage)	-$385	-$507	-$896	-$350	-$311	-$650
Net Appropriations (Spending)	**$27,153**	**$29,775**	**$25,458**	**$25,495**	**$29,272**	**$28,355**

[1] Based on information from the Office of the Comptroller and GOMB.

[2] Beginning in Fiscal Year 2012, the State is implementing Budgeting for Results, an outcome-based system of budget analysis that allocates state funds based on agency/program performance. More information is available on GOMB's website, see "STATE OF ILLINOIS - WEBSITE INDEX."

TABLE 6

CASH BALANCES BY FUND CATEGORY: FY2002-FY2012[1]

($ IN MILLIONS)

FUND CATEGORY	FY2002	FY2003 *	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
General Funds	$ 256	$ 317	$ 182	$ 497	$ 590	$ 642	$ 141	$ 280	$ 130	$ 469	$ 40
Highway Funds	1,198	701	522	733	926	747	814	688	805	999	1,111
Special State Funds	2,180	1,924	2,618	2,327	2,433	2,734	2,741	2,574	2,043	2,270	2,934
Bond Financed Funds	269	252	199	228	533	203	77	68	2,226	1,449	1,460
Debt Service Funds	487	1,050	624	648	626	638	649	654	920	1,308	1,322
Revolving Funds	47	48	127	91	69	63	63	29	41	41	70
State Trust Funds	1,335	1,301	1,356	1,619	1,944	2,220	2,520	2,357	1,881	1,989	2,307
June 30th amounts (End of Fiscal Year)	**$ 5,773**	**$ 5,592**	**$ 5,628**	**$ 6,142**	**$ 7,122**	**$ 7,247**	**$ 7,005**	**$ 6,650**	**$ 8,047**	**$ 8,525**	**$ 9,243**

* Excludes proceeds of 2003 Pension Obligation Bonds for comparability purposes.

[1] Based on information from the Office of the Comptroller and GOMB.

ADDITIONAL BUDGET PROJECTIONS AND FINANCIAL INFORMATION

GOMB is required, pursuant to Public Act 96-1354, to prepare annually and submit to the General Assembly a Three Year Budget Projection. This report is intended to provide additional information on the State's economic and fiscal objectives and fiscal policy intentions for the succeeding three years. GOMB also publishes a quarterly unaudited report of revenues, expenditures, and other financing sources of major state funds. These reports are prepared primarily on a modified accrual basis. Both reports are available on GOMB's website provided in "STATE OF ILLINOIS – WEBSITE INDEX" herein.

TAX REVIEW

The State of Illinois levies taxes or fees on several categories of goods, services and revenues. These range from "Automobile Rental Occupation and Use Tax" to "Video Gaming Tax". A complete discussion with history and revenues generated can be found in *The Illinois Tax Handbook for Legislators, 27th Edition March 2011* published annually since 1985 by the Legislative Research Unit. (See "STATE OF ILLINOIS – WEBSITE INDEX" for this link.) The discussion below is excerpted from the Handbook.

The State's revenues are derived from several categories of taxes and fees. Historically, Individual Income Taxes, Sales Taxes and Corporate Income Taxes provide approximately 70% of total State revenues (ie: not including revenues from the Federal Government and transfers from other State funds). Given the increase in tax rates effective January 1, 2011, in both the individual and corporate tax rates, the percentage of the total represented by these two taxes and by the top three taxes (including Sales Tax) is expected to increase. These three taxes, in order of the level of receipts, will be discussed in turn below. Motor Fuel Taxes, which support some of the State's General Obligation Bonds, are also discussed below.

INDIVIDUAL INCOME TAXES ("IIT")

The Individual Income Tax is imposed on individuals, trusts and estates. Originally enacted in 1969, IIT rates have been adjusted a number of times as shown below. There is a lengthy list of exemptions that apply to the IIT. At current levels of income, each 1% in IIT produces approximately $3 billion in State revenue.

From	To	Tax Rate
July 1, 1969	January 1, 1983	2.50%
January 1, 1983	July 1, 1984	3.00%
July 1, 1984	January 1, 1989	2.50%
January 1, 1989	January 1, 2011	3.00%
January 1, 2011	January 1, 2015	5.00%
January 1, 2015	***January 1, 2025***	*3.75%*
January 1, 2025		*3.25%*
Note: Reductions in 2015 and 2025 currently scheduled to take effect as shown.		

Net of funds currently being diverted to the Tax Refund Fund (see Income Tax Refund discussion below), IIT is distributed as follows:

- 82.7% goes to the General Revenue Fund.
- 10% goes to the Local Government Distributive Fund.
- 7.3% goes to the Educational Assistance Fund.

SALES TAX ("ST"):

The Sales Tax is made up of two matching pairs of taxes:

- The Retailers' Occupation Tax and Use Tax.
- The Service Occupation Tax and Service Use Tax.

The Retailer's Occupation Tax is imposed on gross receipts of retailers from sales of tangible personal property in Illinois. The Use Tax is imposed on persons who use tangible personal property in Illinois. The Service Occupation Tax and Service Use Tax are similar to the Retailers' Occupation and Use taxes but apply to tangible property received incidental to buying a service. Illinois does have the so called "Amazon" tax whereby out-of-state sellers who have offices or other facilities within the State (warehouses and reshipping points included) can be required by the Department of Revenue to collect these taxes on sales within the State.

Taxes on sales came into law in 1933 at 2%. They have been increased in stages over the years to the current level of 6.25%. Of this amount, 1.25% is paid to local government. Of the remaining 5%, portions are reserved by statute to support the Build Illinois Bond Program, McCormick Place Bonds and select other programs (see "REVENUE BONDS" section herein) with the balance going to the General Revenue Fund.

CORPORATE INCOME TAX ("CIT"):

The Corporate Income Tax is imposed on the taxable income of corporations, associations, joint-stock companies and cooperatives. The CIT replaced and is supplemented by the Personal Property Tax Replacement Taxes (see PPTRT discussion below). Originally enacted in 1969 at a rate of 4%, the CIT rate has been changed a number of times as reflected below. As with the IIT, various exemptions and deductions apply to the CIT. At current levels, each 1% in CIT produces approximately $500 million in revenue.

From	To	Tax Rate
July 1, 1969	January 1, 1983	4.00%
January 1, 1983	July 1, 1984	4.80%
July 1, 1984	July 1, 1989	4.00%
July 1, 1989	January 1, 2011	4.80%
January 1, 2011	January 1, 2015	7.00%
January 1, 2015	***January 1, 2025***	*5.25%*
January 1, 2025		*4.80%*
Note: Reductions in 2015 and 2025 currently scheduled to take effect as shown.		

Net of the amounts currently diverted to the Income Tax Refund Fund (see Income Tax Refund discussion below), the CIT is distributed as follows:

- 82.7% goes to the General Revenue Fund.
- 10% goes to the Local Government Distributive Fund.
- 7.3% goes to the Education Assistance Fund.

MOTOR FUEL TAXES ("MFT"):

The Motor Fuel Taxes are imposed on Gasoline ($0.19/gallon), Special Fuels including diesel fuel ($0.215/gallon), levies on Underground Storage Tanks and other environmental impact fees. MFT were first assessed in 1927 at $0.02/gallon and have been increased in stages since then with the last increase in 1996. MFT are distributed as follows:

- $0.025/gallon on special fuels to the State Construction Account Fund.
- $77 million for Grade Crossing Protection Fund, Vehicle Inspection Fund and Emissions Inspection Fund.
- Of the remainder:
    - 45.6% to the State Construction Account Fund (37%) and the State Road Fund (67%).
    - 54.4% to municipalities by population (49.1%), Cook County (16.74%), Other Counties (19.27%) and townships/road districts (15.89%).

NOTE 1: INCOME TAX REFUND FUND:

The Income Tax Refund Fund is funded by a portion of both the CIT (17.5% of gross CIT receipts for 2010 through 2012) and IIT (9.75% of gross receipts in 2010 reduced to 8.75% for 2011 and 2012) to fund tax refunds due to tax filers. The Fiscal Year 2013 Budget proposes a CIT rate of 14.0% and an IIT rate of 9.75%. The rates are adjusted by formula, which formula can and has frequently been changed by the General Assembly. Priority of payment has been to pay IIT refunds first followed by CIT refunds. If funds are left over in the Income Tax Refund Fund they are returned to the General Revenue Fund. If insufficient funds are available in the Income Tax Refund Fund, CIT refunds are held until sufficient funds become available which may be in a subsequent fiscal year. Currently approximately $553 million in CIT refunds are being held for payment in a future fiscal year. Part of the Income Tax Refund Fund is also used to "true up" payments due to local governments under the Personal Property Tax Replacement Tax. Should insufficient funds be available in the Income Tax Refund Fund to pay these "true up" payments, they must be paid, by statute, from deposits into the Income Tax Refund Fund in the first quarter of the subsequent fiscal year.

NOTE 2: PERSONAL PROPERTY TAX REPLACEMENT TAXES ("PPTRT"):

The Illinois Constitution of 1970 abolished all ad valorem personal property taxes. In 1979, the General Assembly replaced these taxes on business with the CIT discussed above plus the PPTRT that is earmarked to local governments to replace the ad valorem tax. With a few exceptions, the tax is 2.5% of federal taxable income and is assessed against corporations and sub-chapter S corporations. Originally introduced at 2.85% in 1979 it was reduced to the current level on January 1, 1981.

51.65% of the Personal Property Tax Replacement Tax is distributed to local governments in Cook County based on their shares of personal property tax collections in 1976, with the balance of 48.35% to the local governments in the other 101 counties based on their share of personal property tax collections in 1976 as well.

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 ("Protest Fund"). Corporate income tax, personal property replacement tax, liquor tax and insurance privilege tax comprise approximately 70.0% of the receipts into this 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 15, 2012, the total Protest Fund balance was $211.4 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 recent history of issuing short-term debt. The State has no short-term debt currently outstanding.

TABLE 7
SHORT TERM CERTIFICATES ISSUED
($ Millions)

Date Issued	Amount Issued	Final Maturity
July 2010	$1,300	June 2011
August 2009	1,250	June 2010
May 2009	1,000	June 2010
December 2008	1,400	June 2009
April 2008*	1,200	June 2008
September 2007*	1,200	November 2007
February 2007*	900	June 2007

*Hospital Assessment Conduit Financings (issued to provide liquidity to the State's Hospital Provider Fund to make supplemental payments to certain hospitals pursuant to the federally-approved Medicaid State Plan).

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 capital and special purpose GO Bonds in the aggregate amount of $28,799,777,443, excluding general obligation refunding bonds and $17,562,348,300 of GO Bonds for pension funding purposes.

The following table shows the statutory general obligation bond authorization and all GO Bonds outstanding as of August 15, 2012.

TABLE 8
GENERAL OBLIGATION BONDS
(As of SEPTEMBER 25, 2012)

Authorization Category	Amount Authorized[3]	Amount Issued	Authorized Unissued	Amount Outstanding
Authorized under Current Bond Act[1,3]				
Multi-purpose	$28,549,577,443	$20,177,386,352	$8,372,191,091	$7,877,122,880
Special-purpose	250,000,000	246,095,000	3,905,000	0
Refunding Bonds[2]	4,839,025,000	7,868,564,239	691,634,102	4,147,390,898
Subtotal	**$33,638,602,443**	**$28,292,045,591**	**$9,067,730,193**	**$12,024,513,778**
Pension Bonds	17,562,348,300	17,166,000,000	396,348,300	15,479,600,000
Total	**$51,200,950,743**	**$45,458,045,591**	**$9,464,078,493**	**$27,504,113,778**
Currently Authorized less Refunding	**$46,361,925,743**			

1 As authorized under the current General Obligation Bond Act, 30 ILCS 330/1 et seq.

2 The State is authorized to issue $4,839,025,000 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.

3 Excludes $750,000,000 in tobacco securitization bonds as legislative authorization has expired.

The GOBRI Fund is used to make debt service payments on all outstanding GO Bonds and on short-term certificates issued as described above under "SHORT-TERM DEBT." As of August 15, 2012, a total of $1,160 million was available in the GOBRI Fund. The amount of outstanding GO Bonds shown above has not been reduced by the remaining amounts otherwise available in the GOBRI Fund. For additional information, see "TRANSFERS TO THE GOBRI FUND FOR PAYMENT OF DEBT SERVICE" below.

INTEREST RATE EXCHANGE AGREEMENTS

In October 2003, the State entered into five separate, but substantially identical, interest rate exchange agreements (collectively, the "Agreements") to convert the variable rate on its Variable Rate General Obligation Bonds, Series B of October 2003, to a synthetic fixed rate. The Agreements have an aggregate notional amount of $600 million, bear a fixed rate of interest of 3.89% and were allocated among four separate counterparties (each a "Counterparty," and collectively, the "Counterparties"). The Agreements are proportionate among the Counterparties, and the Agreement amounts are identified to and amortize with the Series B of October of 2003 variable rate bonds until their final maturity on October 1, 2033. Pursuant to Section 9(b) of the Bond Act, net payments under the Agreements shall be considered interest on such bonds, which shall be subject to continuing appropriation for payment by the General Assembly, and are general obligations of the State.

The following chart shows the counterparties and the respective notional amounts for the Agreements which converted the Variable Rate General Obligation Bonds, Series B of October 2003 to a synthetic fixed rate obligation.

Counterparty	Notional Amount
Loop Financial Products*	$384,000,000
Bank of America	54,000,000
Merrill Lynch Capital Services, Inc.**	54,000,000
AIG Financial Products Corp.	54,000,000
JPMorgan Chase Bank	54,000,000
Total Notional Amount	**$600,000,000**

*Deutsche Bank AG credit support
**Merrill Lynch Derivative Products AG credit support

The State entered into the Agreements as a means of (1) lowering its borrowing costs when compared to fixed-rate bonds at the time of issuance and (2) limiting interest rate risk inherent in variable rate debt. The Agreements may expose the State to certain market and credit risks. The State may terminate the Agreements at any time at market value, or upon the occurrence of certain events. In addition, either the State or the Counterparties may terminate the Agreements if the other party fails to perform under the terms of the Agreements. A Counterparty may terminate its related Agreement if the State's rating falls below "BBB" from S&P, "Baa" from Moody's and "BBB" from Fitch. If the Agreements are terminated, the related bonds would continue to bear interest at a variable rate, and the State could be liable for a termination payment if the Agreements have a negative market value.

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HISTORICAL BORROWING

The following table summarizes the level of bond sales from Fiscal Years 2008-2012 and year to date for Fiscal Year 2013.

TABLE 9
GENERAL OBLIGATION BOND SALES
($ IN MILLIONS)

Fiscal year	Capital Improvement	Refunding	Special Purpose	Pension
2008	125.0	-	-	-
2009	150.0	-	-	-
2010	2,456.0	1,501.3	246.1	3,466.0
2011	1,200.0	-	-	3,700.0
2012	1,375.0	1,797.7	-	-
2013[1]	50.0			

[1] Includes Bonds issued pursuant to this Official Statement.

INDEBTEDNESS IN PRIOR YEARS

The following table shows the outstanding general obligation bonded indebtedness of the State at the end of each fiscal year from 2008-2012.

TABLE 10
GENERAL OBLIGATION BONDS OUTSTANDING
($ IN MILLIONS)

End of Fiscal year	Capital Improvement	Special Purpose	Pension Funding[1]
2008	9,463.0	-	9,950.0
2009	9,051.8	-	9,900.0
2010	10,893.9	246.1	13,316.0
2011	11,428.9	-	16,272.8
2012	12,071.4	-	15,479.6

[1] Principal of and Interest on the 2003 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, 94-004 and 93-009.

FUTURE FINANCINGS

The State continues to execute on its $31 billion Illinois Jobs Now! capital program. See "STATE FINANCIAL INFORMATION - DISCUSSION AND ANALYSIS OF FISCAL YEARS 2010 THROUGH 2013 - FISCAL YEAR 2011 (JULY 2010 – JUNE 2011) - *FISCAL YEAR 2011 CAPITAL BUDGET*." As a result, the State will continue to issue bonds to finance capital expenditures, at such times and in such amounts as shall be determined by its capital investment program and subject to market conditions.

The State also periodically reviews its existing debt and has authorization to enter into refunding transactions from time to time as dictated by economic conditions.

The State evaluates its short-term cash needs from time to time and based on such evaluations may seek to issue additional short-term general obligation debt due within one year from its date of issuance.

SB336 was introduced into the General Assembly and amended in early January 2011 to authorize the issuance of up to $8.75 billion in GO Bonds of the State for the specific purpose of paying or restructuring outstanding vouchers and other unfunded liabilities of the State. SB336 contemplated the issuance for this purpose of $5.75 billion in GO Bonds in the spring of 2011 and an additional $3 billion of GO Bonds in January of 2012. Repayment of these bonds was to come from a 0.5% increase in individual income tax. SB336 was not passed by the General Assembly. It was resubmitted for consideration as SB003. Passage of SB003 cannot be predicted.

TRANSFERS TO THE GOBRI FUND FOR PAYMENT OF DEBT SERVICE

Debt service of the State's GO Bonds is paid from the GOBRI Fund. The GOBRI Fund receives statutory transfers from various sources including the Road Fund to pay debt service on GO Bonds issued for Transportation Highways purposes under 4(a) of the Bond Act, from the School Infrastructure Fund and the General Revenue Fund to pay debt service on GO Bonds issued for School Construction Law purposes under Section 5(e) of the Bond Act, from the Capital Projects Fund to pay debt service on the GO Bonds issued pursuant to the bonding authorization under the Illinois Jobs Now! capital program and from the General Revenue Fund to pay debt service on GO Bonds issued for all other purposes. See "THE OFFERING – SECURITY – *State Funding Payments*."

Not including debt service transfers on short-term debt certificates as may have been from time to time, outstanding; the following table shows a history of debt service transfers to the GOBRI Fund from the various funds listed above during Fiscal Year 2008 through 2012.

TABLE 11
GENERAL OBLIGATION BONDS
TRANSFERS TO THE GOBRI FUND FOR PAYMENT OF DEBT SERVICE
FISCAL YEARS 2008-2012
($ IN MILLIONS)

	2008	2009	2010	2011	2012
General Revenue Fund					
Capital Bonds	$665.9	$636.0	$686.5	$540.2	$452.8
Pension Bonds	466.6	466.8	563.5	1,667.2	1,607.2
Other[1]	-	-	63.0	189.0	-
Road Fund	258.3	244.6	296.2	391.6	332.9
School Infrastructure Fund	214.2	228.1	213.8	203.7	215.9
Capital Projects Fund	-	-	39.7	172.8	240.8
TOTAL	$1,604.9	$1,575.5	$1,862.7	$3,164.6	$2,849.6

[1] Series of April 2010 bonds were issued to fund Medicaid payments from the Healthcare Provider Relief Fund for enhanced federal matching revenues under ARRA. The bonds matured in March 2011.

MEASURES OF DEBT BURDEN

Tables 12, 13 and 14 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 GENERAL AND ROAD FUND APPROPRIATIONS
FISCAL YEARS 2008-2012

Fiscal Year	Total Appropriations[1] ($ In Millions)	Capital Improvement Bonds Debt Service % of Appropriations	Pension Bonds[2] Debt Service % of Appropriations
2008	32,391	3.66%	1.69%
2009	36,915	3.14%	1.48%
2010	33,004	3.43%	1.65%
2011	32,411	4.02%	4.15%
2012*	36,106	3.57%	4.37%

[1] Includes aggregate appropriations from the General Funds and the Road Fund for each fiscal year.
[2] Includes 2010 and 2011 Pension Obligation Notes and 2003 Pension Obligation Bonds.
*Preliminary.

TABLE 13
RATIO OF GENERAL OBLIGATION DEBT OUSTANDING
TO ILLINOIS PERSONAL INCOME
FISCAL YEARS 2008-2012

End of Fiscal Year	Illinois Personal Income[1] ($ In Billions)	Capital Improvement and Refunding Bonds % of Personal Income	Pension Bonds[2] % of Personal Income
2008	559.0	1.69%	1.78%
2009	524.7	1.73%	1.89%
2010	537.3	2.07%	2.48%
2011	568.5	2.01%	2.86%
2012	575.2	2.10%	2.71%

[1] U.S. Department of Commerce, Bureau of Economic Analysis, August 2012.
[2] Includes 2010 and 2011 Pension Obligation Notes and 2003 Pension Obligation Bonds.

TABLE 14
GENERAL OBLIGATION DEBT PER CAPITA- ILLINOIS
FISCAL YEARS 2007-2011

	2007	2008	2009	2010	2011
Population (in Thousands)[1]	12,853	12,902	12,910	12,831	12,869
Capital Improvement and Refunding Bonds	$772	$733	$701	$849	$888
Pension Bonds[2]	$778	$771	$767	$1,038	$1,264

[1] U.S. Department of Commerce, Bureau of the Census, August 2012.

[2] Includes 2010 Pension Obligation Notes and 2003 Pension Obligation Bonds.

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Table 15
MATURITY SCHEDULE - GENERAL OBLIGATION BONDS
As of September 25, 2012

	General Obligation Capital Improvement Bonds					General Obligation Pension Bonds			Total
Fiscal Year June 30	Multiple Purpose	Refunding	Total Principal	Total Interest	Total Debt Service	Principal	Interest	Debt Service	Combined Total Debt Service
2013	369,598,755	364,271,996	733,870,751	611,424,429	1,345,295,180	793,200,000	767,750,716	1,560,950,716	2,906,245,896
2014	294,872,201	448,342,406	743,214,607	586,817,476	1,330,032,082	893,200,000	740,879,544	1,634,079,544	2,964,111,626
2015	331,856,279	431,559,441	763,415,720	534,646,799	1,298,062,518	1,093,200,000	704,683,372	1,797,883,372	3,095,945,890
2016	337,116,084	413,990,257	751,106,341	504,345,171	1,255,451,511	700,000,000	656,454,000	1,356,454,000	2,611,905,511
2017	360,530,167	362,361,174	722,891,341	465,482,133	1,188,373,474	1,025,000,000	622,338,000	1,647,338,000	2,835,711,474
2018	352,496,167	347,296,639	699,792,806	421,918,022	1,121,710,829	1,050,000,000	568,615,500	1,618,615,500	2,740,326,329
2019	363,477,317	302,655,000	666,132,317	387,397,923	1,053,530,240	1,075,000,000	511,105,500	1,586,105,500	2,639,635,740
2020	345,401,629	294,720,000	640,121,629	360,231,321	1,000,352,951	225,000,000	449,550,000	674,550,000	1,674,902,951
2021	321,466,898	302,318,985	623,785,883	323,603,447	947,389,330	275,000,000	438,412,500	713,412,500	1,660,801,830
2022	374,087,410	225,080,000	599,167,410	283,606,612	882,774,022	325,000,000	424,800,000	749,800,000	1,632,574,022
2023	383,767,922	207,210,000	590,977,922	258,435,125	849,413,048	375,000,000	408,712,500	783,712,500	1,633,125,548
2024	365,898,968	184,910,000	550,808,968	222,016,429	772,825,397	450,000,000	390,150,000	840,150,000	1,612,975,397
2025	349,228,835	134,265,000	483,493,835	197,532,184	681,026,018	525,000,000	367,200,000	892,200,000	1,573,226,018
2026	365,990,000	128,410,000	494,400,000	171,236,708	665,636,708	575,000,000	340,425,000	915,425,000	1,581,061,708
2027	402,685,000	-	402,685,000	149,858,417	552,543,417	625,000,000	311,100,000	936,100,000	1,488,643,417
2028	411,260,000	-	411,260,000	128,996,450	540,256,450	700,000,000	279,225,000	979,225,000	1,519,481,450
2029	413,610,000	-	413,610,000	106,030,933	519,640,933	775,000,000	243,525,000	1,018,525,000	1,538,165,933
2030	358,500,000	-	358,500,000	86,511,983	445,011,983	875,000,000	204,000,000	1,079,000,000	1,524,011,983
2031	314,455,000	-	314,455,000	69,397,067	383,852,067	975,000,000	159,375,000	1,134,375,000	1,518,227,067
2032	255,575,000	-	255,575,000	54,895,540	310,470,540	1,050,000,000	109,650,000	1,159,650,000	1,470,120,540
2033	254,865,000	-	254,865,000	42,484,647	297,349,647	1,100,000,000	56,100,000	1,156,100,000	1,453,449,647
2034	288,035,000	-	288,035,000	28,200,587	316,235,587	-	-	-	316,235,587
2035	201,240,000	-	201,240,000	15,528,560	216,768,560	-	-	-	216,768,560
2036	103,000,000	-	103,000,000	6,539,350	109,539,350	-	-	-	109,539,350
2037	55,000,000	-	55,000,000	2,727,500	57,727,500	-	-	-	57,727,500
2038	-	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-	-
Total	7,974,013,631	4,147,390,898	12,121,404,529	6,019,864,811	18,141,269,340	15,479,600,000	8,754,051,632	24,233,651,632	42,374,920,972

General Obligation debt service payments for Fiscal Year 2013, as of September 25, 2012:

Payments made to date:	96,890,751	-	96,890,751	249,829,985	346,720,736	-	140,687,858	140,687,858	487,408,594
Outstanding payments:	272,708,004	364,271,996	636,980,000	361,594,444	998,574,444	793,200,000	627,062,858	1,420,262,858	2,418,837,302
Total	369,598,755	364,271,996	733,870,751	611,424,429	1,345,295,180	793,200,000	767,750,716	1,560,950,716	2,906,245,896

Principal Outstanding as of September 25,2012:

Capital Improvement Bonds:	12,024,513,778
Pension Bonds:	15,479,600,000
Total:	27,504,113,778

Note: Interest on Build America Bonds is shown net of the 35% Federal subsidy

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OTHER GENERAL FUND LIABILITIES

The General Funds of the State also carry other liabilities not detailed in the preceding budget tables, including Tables 1 and 1A. These liabilities have accrued during the current and prior Fiscal Years, but will be paid from future Fiscal Year's appropriations.

One large component of these accrued liabilities consists of payment deferrals under Section 25 of the State Finance Act (30 ILCS 105) for Medical Assistance, comprised mostly of the Medicaid program, and the smaller component of accrued liabilities, Group Health Insurance (herein referred to as "Section 25 Liabilities"). The following table provides end of year outstanding Section 25 Liabilities for Fiscal Years 2006 to 2011. Section 25 Liabilities for end of Fiscal Year 2012 are estimated to be $2.5 billion for Medical Assistance under the Department of Healthcare and Family Services, $200 million for Medical Assistance under the Department of Human Services and $1.4 billion for Group Health Insurance under the Health Insurance Fund.

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TABLE 16

SECTION 25 LIABILITIES- FISCAL YEARS 2006-2011

($ IN THOUSANDS)

	2006	2007	2008	2009	2010	2011
Medical Assistance (comprised mostly of Medicaid)						
Healthcare and Family Services (HFS)	$2,166,413	$3,184,784	$2,148,749	$1,045,951	$929,475	$718,385 [1]
Human Services (DHS)	107,367	89,634	105,383	123,943	67,756	73,557
Total, Medical Assistance	$2,273,780	$3,274,418	$2,254,132	$1,169,894	$997,231	$791,942
Group Health Insurance Liability Due to Health Insurance Fund						
Healthcare and Family Services (HFS)	$73,566	$93,203	$113,363	$321,078	$523,535	$1,049,329
Total	$2,347,346	$3,367,621	$2,367,495	$1,490,972	$1,520,766	$1,841,271

Source: Based on information from the Illinois Office of the Comptroller and Healthcare and Family Services

[1] The FY11 HFS number does not include $210 million deficit in the Public Aid Recoveries Trust Fund (PARTF). A large amount of PARTF is for non-appropriated spending and should not be included in Section 25 liability, as the Section 25 measurement is only for future year appropriations used to pay prior year bills.

An additional general fund liability is the underfunded Income Tax Refund Fund, as described in the "STATE FINANCIAL INFORMATION – TAX REVIEW" section of this Official Statement. This underfunding results in a back log of unpaid business income tax refunds. As of the date of this Official Statement, approved but still unpaid business income tax refunds are estimated by the Illinois Department of Revenue as approximately $69 million for Fiscal Year 2012. Table 16A shows the historical data of the underfunded Income Tax Refund Fund.

TABLE 16A
UNPAID BUSINESS INCOME TAX REFUNDS - FISCAL YEARS ENDING 2008-2012
($ IN MILLIONS)

	2008	2009	2010	2011	2012
Unpaid Business Refunds	$3.5	$214.2	$690.9	$583.9	$69.0

Source: Based on information provided by the Illinois Department of Revenue

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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 17 identifies the current level of revenue bonds indebtedness and a description of each bond program follows.

TABLE 17
REVENUE BONDS
AS OF AUGUST 15, 2012
($ IN MILLIONS)

Revenue Bond Program	Bonds Outstanding
Build Illinois - Sales Tax Revenue Bonds	$2,732.1
Metropolitan Exposition and Auditorium Authorities - Civic Center Program	72.8
MPEA[1,2] - McCormick Place Expansion Project and Refunding Bonds	2,556.3
Illinois Sports Facilities Authority	438.3
Illinois Certificates of Participation	14.9
Total	**$5,814.4**

[1] Metropolitan Pier and Exposition Authority ("MPEA")
[2] Includes capital appreciation bonds expressed in the amount of original principal issuance.

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 $5,703.5 million. Public Act 93-839 amended the Build Illinois Bond Act, 30 ILCS 425 *et. seq*., to include certain restrictions similar to those contained in the Bond Act.

The Build Illinois Fund receives 3.8% 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 additional amount equal to the deficiency will be paid from the State's sales tax collections.

Build Illinois Bonds are limited obligations of the State payable solely from the specified State sales 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 sales tax revenues pledged to the bonds.

METROPOLITAN EXPOSITION AND AUDITORIUM AUTHORITIES—CIVIC CENTER PROGRAM

In 1989, 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—EXPANSION PROJECT BONDS

Metropolitan Pier and Exposition Authority ("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. Legislation adopted in May 2010 increased the airport departure taxes which secure these bonds, extended the allocation of sales tax revenues to meet the deficiency on these bonds to 2060 and provided additional financial support from the State for operations of MPEA. In July 2012, MPEA issued $855 million of bonds, a portion of which were refunding bonds used defease the remaining $18 million of MPEA Dedicated State Tax Bonds. This now allows the Build Illinois Bond program to be the sole bonds with first lien on the State Share of Sales Tax.

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, 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").

In 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 (30 ILCS 115/0.1 *et seq.*) and (ii) an advance of State hotel tax revenues in the amount of $22.179 million in Fiscal Year 2002, increasing by 5.615% each fiscal year thereafter, which advance is required to be repaid annually by receipts derived from a 2.0% 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 otherwise payable 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 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. In 2008, ISFA issued $10 million of additional revenue bonds (the "2008 ISFA Bonds") to finance a portion of certain infrastructure improvements and renovations to U.S. Cellular Field. The 2003 ISFA Bonds and the 2008 ISFA Bonds are payable from the same revenue sources as the 1999 ISFA Bonds and the 2001 ISFA Bonds.

RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY

In December 2010, the Railsplitter Tobacco Settlement Authority ("Railsplitter") issued revenue bonds in the amount of $1.5 billion. After funding Railsplitter's various business purposes, including the funding of a debt service reserve fund, the State received $1.35 billion in exchange for selling to Railsplitter its rights to the payments under the Master Settlement Agreement ("MSA") between various states, including the State, and various cigarette manufacturers (the Participating Manufacturers or "PM").

The State used these funds to pay outstanding Fiscal Year 2010 obligations, with payments made in December 2010 at the end of the extended lapse period for that fiscal year. The MSA calls for the PMs to make annual payments which are allocated among the various participating states. In recent years, Illinois has received between $275 and $300 million per year from the MSA. These funds have been used to fund a variety of health-related and other programs of the State. Railsplitter purchased the State's rights to 100% of the MSA payments but, by the terms of the purchase, may keep only the amount of funds required each year for debt service, costs of operations and enforcement of the MSA by the State Attorney General. Any excess amounts ("Excess MSA Payments") must be transferred to the State. The funds required by Railsplitter for these purposes are expected to average approximately $150 million per year.

The revenue bonds issued by Railsplitter are secured only by the MSA payments and the State is not obligated in any way to pay principal and interest on these bonds. However, as a result of the Railsplitter bond financing, other revenues will be needed to fund those portions of the health-related and other programs previously funded by the MSA payments now retained by Railsplitter. These revenues could include amounts in the General Revenue Fund. In addition, Railsplitter has a priority claim on all MSA payments to be received by the State. If those amounts should decline in future years, the State's share of any Excess MSA Payments will be correspondingly reduced.

CERTIFICATES OF PARTICIPATION

Public Act 93-839 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. Prior to the passage of Public Act 93-839, the State had 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.

The State has additional contingent liabilities which provide for presentation of an appropriation request by the Governor to the General Assembly for debt service and other payment deficiencies – see "MORAL OBLIGATION BONDS AND OTHER MORAL OBLIGATION COMMITMENTS" below, and a statutory Continuing Appropriation of General Funds for lump-sum payments in excess of available loan loss reserves for certain guaranteed loan programs – see "AGRICULTURAL LOAN GUARANTEE PROGRAM" below.

TABLE 18
MATURITY SCHEDULE -- REVENUE BONDS
Bond Issuances through August 15, 2012

Year Ending June 30	Build Illinois	MPEA Expansion Project	Civic Center Program	Sports Facilities Authority	Illinois Certificates of Participation	Total Principal	Total Interest	Total Debt Service
2013	179,992,124	35,089,492	10,095,000	5,092,354	2,305,000	232,573,970	268,740,280	501,314,250
2014	187,519,306	22,384,911	10,705,000	6,019,695	2,440,000	229,068,912	261,262,136	490,331,048
2015	185,526,038	17,526,860	11,415,000	6,907,832	2,590,000	223,965,730	275,934,380	499,900,110
2016	186,580,000	18,695,335	12,020,000	7,773,337	2,750,000	227,818,672	267,166,929	494,985,601
2017	171,560,000	26,177,234	5,488,409	8,581,095	2,915,000	214,721,739	270,367,882	485,089,621
2018	156,800,000	26,007,384	5,668,835	6,805,418	3,140,000	198,421,636	280,793,836	479,215,472
2019	143,810,000	35,200,083	5,875,462	7,039,442	-	191,924,987	292,782,380	484,707,367
2020	127,765,000	42,054,453	6,103,026	7,467,726	-	183,390,205	292,503,667	475,893,872
2021	96,905,000	80,967,400	5,405,000	7,889,845	-	191,167,245	254,362,580	445,529,825
2022	107,365,000	54,313,012	-	8,307,537	-	169,985,549	291,469,584	461,455,134
2023	95,040,000	109,057,495	-	8,726,172	-	212,823,667	244,688,567	457,512,234
2024	87,780,000	45,216,436	-	9,138,953	-	142,135,389	306,681,573	448,816,961
2025	86,585,000	48,272,449	-	9,521,669	-	144,379,118	302,276,306	446,655,424
2026	84,660,000	55,469,129	-	15,610,731	-	155,739,860	271,268,288	427,008,148
2027	75,845,000	95,643,545	-	32,537,372	-	204,025,917	225,688,697	429,714,614
2028	69,740,000	126,092,687	-	36,970,797	-	232,803,484	211,725,991	444,529,476
2029	48,705,000	131,355,321	-	41,810,210	-	221,870,531	202,384,909	424,255,440
2030	45,580,000	10,277,690	-	52,405,826	-	108,263,516	348,891,059	457,154,575
2031	40,580,000	9,145,954	-	75,355,000	-	125,080,954	329,713,296	454,794,250
2032	34,580,000	8,140,997	-	84,295,000	-	127,015,997	324,898,578	451,914,575
2033	34,580,000	7,243,844	-	-	-	41,823,844	319,829,056	361,652,900
2034	34,580,000	6,447,732	-	-	-	41,027,732	318,873,243	359,900,975
2035	12,500,000	5,737,216	-	-	-	18,237,216	317,894,334	336,131,550
2036	12,500,000	5,107,150	-	-	-	17,607,150	317,961,900	335,569,050
2037	-	4,545,622	-	-	-	4,545,622	317,960,928	322,506,550
2038	-	4,043,951	-	-	-	4,043,951	318,462,599	322,506,550
2039	-	3,600,523	-	-	-	3,600,523	318,906,027	322,506,550
2040	-	3,202,467	-	-	-	3,202,467	319,304,083	322,506,550
2041	-	15,686,328	-	-	-	15,686,328	306,885,078	322,571,407
2042	-	227,199,617	-	-	-	227,199,617	95,376,027	322,575,644
2043	-	36,068,330	-	-	-	36,068,330	286,499,346	322,567,675
2044	-	33,701,220	-	-	-	33,701,220	288,866,455	322,567,675
2045	-	31,689,253	-	-	-	31,689,253	290,873,422	322,562,675
2046	-	29,798,833	-	-	-	29,798,833	292,768,842	322,567,675
2047	-	76,946,212	-	-	-	76,946,212	245,620,332	322,566,544
2048	-	273,730,000	-	-	-	273,730,000	48,834,378	322,564,378
2049	-	287,825,000	-	-	-	287,825,000	34,740,299	322,565,299
2050	-	302,750,000	-	-	-	302,750,000	19,705,294	322,455,294
2051		35,706,739				35,706,739	286,864,490	322,571,229
2052		168,218,298				168,218,298	154,351,702	322,570,000
Total	2,307,077,468	2,556,336,202	72,775,732	438,256,011	16,140,000	5,186,660,376	9,982,962,557	15,169,622,933

Note: Columns may not add due to rounding.

Amounts shown under Total Interest for 2031 and thereafter are comprised largely of accreted principal amount on capital appreciation bonds issued by MPEA.

MORAL OBLIGATION BONDS AND OTHER MORAL OBLIGATION COMMITMENTS

Currently, eight 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 revenue available to 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 19
MORAL OBLIGATION ESTIMATED DEBT[1]
ESTIMATED AS OF AUGUST 15, 2012
($ IN MILLIONS)

Issuing Authority	Moral Obligation Bonds Outstanding
Southwest Illinois Development Authority	$ 27.5
Upper Illinois River Valley Development Authority	18.2
Illinois Finance Authority[2]	86.7
Illinois Housing Development Authority	0.3
	$ 132.8

[1] The amounts listed include only those bonds containing a moral obligation pledge.

[2] Amount reflects outstanding moral obligation bonds issued by the IFA and certain of the predecessor authorities that were consolidated into the IFA when it was created on March 1, 2004.

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.

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.

College Illinois, the State's Prepaid Tuition Program, is operated by the Illinois Student Assistance Commission ("ISAC"). College Illinois is supported by a moral obligation commitment of the State. It has recently reported an underfunded liability of $552 million. Should no additional prepaid tuition contracts be sold under the College Illinois program, actuary's estimate that the State will need to provide additional funds to College Illinois to support its obligations. These additional funds would need to be provided starting in 2022 and concluding in 2036 and, depending upon which actuarial assumptions are used, could total in excess of $1.6 billion. For additional information, see ISAC's College Illinois website in "STATE OF ILLINOIS – WEBSITE INDEX." ISAC, in conjunction with the General Assembly and the Governor, are in discussions as to how to address the projected shortfall. No assurances as to what solution, the timing of the solution or the ultimate cost to the State, if any, can be made at this time.

AGRICULTURAL LOAN GUARANTEE PROGRAM

The Illinois Finance Authority (the "IFA", as successor to the Illinois Farm Development Authority), is authorized at 20 ILCS 3501 Article 830 *et seq.*, (the "Loan Program"), to issue up to $235 million in guarantees for loans by financial institutions ("Secured Lenders") to agriculture and agribusiness borrowers. Under the Loan Program, Secured Lenders may receive a lump-sum payment up to a maximum of 85% of a remaining loan balance in the event of a default. The IFA currently maintains two reserve funds, (i) The Illinois Agricultural Loan Fund, and (ii) The Illinois Farmer & Agribusiness Loan Guarantee Fund (collectively, the "Reserve Funds"), from which default lump-sum payments may be made. As of August 15, 2012, the available balances in the Reserve Funds held by the IFA were $10 million and $7.7 million, respectively.

These Reserve Funds are further backed by a "continuing appropriation" of the State's General Funds as a full faith and credit general obligation of the State. As of October 31, 2011, the IFA Loan Programs secure: (i) $16.6 million in Illinois Agricultural Loans and (ii) $18 million in Illinois Farmer & Agribusiness Loans. In total, 85% of these two Loan Programs or $29.4 million is guaranteed by the State. To date, there has not been a required transfer from the State's General Funds for default lump-sum payments under the Loan Program.

Loans made pursuant to the Loan Program may be secured for up to five years, are subject to annual renewal by the IFA, and may be discontinued prior to maturity if a Secured Lender fails to properly monitor the borrower or the loan collateral. Secured Lenders under the Loan Program covenant to timely pursue collateral recovery upon receiving a lump-sum "default" payment, and must bear the first 15% of losses realized after collateral recovery.

ILLINOIS STUDENT ASSISTANCE COMMISSION STATE GUARANTEE

Pursuant to authority granted under the provisions of Section 152 of the Higher Education Student Assistance Act, approved and effective May 7, 2009 (the "Guarantee Legislation"), ISAC has designated its Student Loan Revenue Bonds, Series 2009 (State Guaranteed) as guaranteed by the State (the "Guaranteed Bonds"). The Guaranteed Bonds were issued in May, 2009 in the aggregate principal amount of $50,000,000. The State's guarantee constitutes a general obligation of the State and the full faith, credit and resources of the State are irrevocably pledged to the punctual payment of the principal of and interest on the Guaranteed Bonds as the same becomes due, whether at maturity or upon redemption. The guarantee of the State is limited to bonds so designated by ISAC in an aggregate principal amount of not greater than $50,000,000.

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PENSION SYSTEMS

GENERAL

The State provides funding for the Retirement Systems, which provide benefits upon retirement, death or disability to employees and beneficiaries. The Retirement Systems are, in order from largest to smallest membership: (i) the Teachers' Retirement System of the State of Illinois ("TRS"); (ii) the State Universities Retirement System of Illinois ("SURS"); (iii) the State Employees' Retirement System of Illinois ("SERS"); (iv) the Judges' Retirement System of Illinois ("JRS"); and (v) the General Assembly Retirement System, State of Illinois ("GARS").

Other than the "Excluded Information" (defined below), the information contained herein relies on information produced by the Retirement Systems, their independent accountants and their independent actuaries (the "Source Information") and such information is presented herein on the basis of the Source Information. The State has not independently verified the Source Information and makes no representations nor expresses any opinion as to the accuracy of the Source Information. "Excluded Information" means information contained under the following sub-captions: "RECENT REPORTS AND OTHER DEVELOPMENTS REGARDING THE RETIREMENT SYSTEMS," "PENSION STABILIZATION LEGISLATION AND OTHER PROPOSALS," "SEC INQUIRY," and "PENSION DISCLOSURE POLICIES AND PROCEDURES."

To fund the benefits to be paid by a defined-benefit pension plan, both employees and employers make contributions to the plan's assets. Generally, employees contribute a fixed percentage of their annual salary and employers contribute the additional amounts necessary, when combined with the projected investment earnings on plan assets, to pay the benefits under the pension plan. The necessary employer contributions to the Retirement Systems are determined annually by an independent actuary based on State law requirements. See "DETERMINATION OF EMPLOYER CONTRIBUTIONS" below. As provided in the Pension Code, the payment of the required State contributions, all benefits granted under each Retirement System and all expenses of administration and operation are obligations of the State.

For SERS, GARS and JRS, the State provides the sole employer contribution to the Retirement Systems. For TRS, the individual school districts (which employ the majority of TRS members), special districts and State agencies employing TRS members also contribute. For SURS, State contributions, combined with trust and federal funds, serve as the employer contribution.

Section 5 of Article XIII of the Illinois Constitution provides that "[m]embership in any pension retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired." The benefits available under the Retirement Systems accrue throughout the time a member is employed by the State. Although the benefits accrue during employment, certain age and service requirements must be achieved for an employee to receive a retirement or survivor's annuity upon retirement or termination from an employer participating in the Retirement Systems.

State contributions to the Retirement Systems are made following appropriation by the General Assembly. Prior to the passage of Public Act 97-694, each Retirement System was required to certify to the State the amount necessary to pay the Required Annual Statutory Contribution (as defined below) by November 15 (December 15 for GARS) of the current fiscal year for inclusion in the Governor's budget for the following fiscal year. As a result of the passage of Public Act 97-694, which became effective in June 2012, the process for certification by the Retirement Systems of the Required Annual Statutory Contributions was revised as follows: Beginning November 1, 2012, the Board of each Retirement System will be required, on or before November 1 of each year, to submit a proposed certification to the newly created position of State Actuary the amount necessary to pay the Required Annual Statutory Contribution. The position of State Actuary will be within the Office of the Auditor General and responsible for reviewing actuarial practices, assumptions, and valuations of the actuaries of the Retirement Systems. By January 1 of each year, the State Actuary will be required to issue a preliminary report providing a review of the actuarial assumptions used in the proposed certification by the Retirement Systems and recommend any changes for consideration. The Board of each Retirement System must consider all recommendations of the State Actuary prior to providing a final certification to the State of the Required Annual Statutory Contribution on or before January 15 of each year, beginning January 15, 2013.

In the event that the General Assembly fails to appropriate the amount certified by the Retirement Systems, the Pension Code requires that payments are to be made by the State Comptroller and the State Treasurer to the Retirement Systems in amounts sufficient to meet the requirements of the Statutory Funding Plan (as defined below) through a "Continuing Appropriation". See "DETERMINATION OF EMPLOYER CONTRIBUTIONS" herein. Despite the Continuing Appropriation, the possibility still exists that the Retirement Systems will not receive the required contribution in a timely manner in each year because there could be insufficient funds available in the State's General Funds. If such funds are not available, the State could fail to meet its payment obligation or be forced to make such payment from another source. If the full amount of Required Annual Statutory Contributions is not paid in a timely manner, the Retirement Systems may be required to sell assets to pay benefits as they become due. For a description of the Statutory Funding Plan, the instances in which the Retirement Systems have not been fully funded, and the effect of a sale of the Retirement Systems' assets to pay benefits, see "HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS" below.

BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS

The State is obligated to make contributions to the Retirement Systems as set forth in the Pension Code. See "ACTUARIAL METHODS—*Actuarial Accrued Liability*" herein. In addition, the Retirement Systems' members make annual contributions to the Retirement Systems from their salaries. For more information on the amount of contributions made by the State and Retirement System members in each of fiscal years 2007 through 2011, see Tables 25 through 29.

Except as discussed under "RECENT REPORTS REGARDING THE RETIREMENT SYSTEMS," the information contained herein relies on information produced by the Retirement Systems, their independent accountants and their independent actuaries (the "Source Information"). The information presented herein is presented on the basis of the Source Information. The State has not independently verified the Source Information and makes no representations nor expresses any opinion as to the accuracy of the Source Information.

Furthermore, where the tables in this disclosure present aggregate information regarding the Retirement Systems, specifically in Tables 24-34, such combined information results solely from the arithmetic calculation of numbers compiled from the Source Information and may not conform to the requirements for the presentation of such information as may be required by GASB or the Statutory Funding Plan.

The comprehensive annual financial reports ("CAFR") of the Retirement Systems for the fiscal year ending June 30, 2010, and the Actuarial Valuations of the Retirement Systems for the fiscal year ending June 30, 2011, are hereby incorporated by reference. These documents are available upon written request to the respective Retirement System. (For contact information for each of the Retirement Systems, see "STATE OF ILLINOIS – WEBSITE INDEX" herein).

The *Teachers' Retirement System*, TRS, is a cost-sharing, multiple-employer, public employee defined-benefit pension plan. TRS is governed by a 13-member Board of Trustees, consisting of the State Superintendent of Education, six trustees appointed by the Governor with the advice and consent of the Senate, four trustees elected by contributing TRS members, and two trustees elected by TRS annuitants. Two appointed trustee positions are currently vacant. All trustees except for the State Superintendent of Education serve 4-year staggered terms.

TRS provides coverage to teachers employed by public school districts in the State (excluding Chicago). Although most of TRS's covered employees are not employees of the State, 93.3% of the funding for TRS is the responsibility of the State. TRS receives contributions from 867 local school districts, 140 special districts and 23 other State agencies. However, the contributions of individual school districts, special districts and State agencies are made at a minimal level. As of June 30, 2011, TRS had a total membership of 386,837, consisting of 170,190 active members, 115,295 inactive members entitled to benefits but not yet receiving them, and 101,352 retirees and beneficiaries currently receiving benefits. Members contribute 9.4% of their salary to TRS. However, a member may receive a refund of 0.4% if such member does not utilize the early retirement option provided by TRS.

The *State Universities Retirement System,* SURS, is a cost-sharing, multiple-employer, public employee defined-benefit pension plan. SURS is governed by an 11-member Board of Trustees, consisting of the Chairperson of the Illinois Board of Higher Education, four trustees appointed by the Governor with the advice and consent of the Senate, four trustees elected by contributing SURS members and two trustees elected by SURS annuitants. All trustees except for the Chairperson of the Illinois Board of Higher Education serve 6-year staggered terms.

SURS provides coverage to faculty and staff of State universities, community colleges and related agencies, of which some covered employees are not State employees. SURS draws contributions from employees of nine universities, 39 community college districts and 15 other State agencies. As of June 30, 2011, SURS had a total membership of 212,903, consisting of 81,611 active members (of which 9,723 are in the Self Managed Plan, as defined below), 79,922 inactive members entitled to benefits but not yet receiving them (of which 7,019 are in the Self Managed Plan described below), and 51,370 retirees and beneficiaries currently receiving benefits. Members contribute either 8.0% or 9.5% of their salary depending on the benefits package applicable to them.

SURS also provides a public employee defined contribution plan, termed the “Self-Managed Plan.” In a defined contribution plan, the employee and the employer contribute specified amounts to the pension plan. These contributions, plus the investment earnings on the money in the pension plan, represent the employee’s benefits under the plan. As opposed to defined-benefit plans where the amount of benefits is guaranteed to the employee once earned, only employer contributions to the plan are guaranteed. Therefore, because the State’s obligation to make contributions to the Self-Managed Plan does not extend beyond the requirement to make current payroll, the Self-Managed Plan is fully funded by definition.

The *State Employees’ Retirement System*, SERS, is a single-employer, public employee defined-benefit pension plan. SERS is governed by a 13-member Board of Trustees, consisting of the Illinois Comptroller, six trustees appointed by the Governor with the advice and consent of the Senate, four trustees elected by the SERS members, and two trustees elected by the SERS retirees. One appointed trustee position is currently vacant. All trustees except for the Comptroller serve 5-year staggered terms.

SERS membership is automatic for most State employees not eligible for another State-sponsored retirement plan. In addition, employees appointed by the Governor and requiring confirmation by the Senate may elect to become members of SERS. As of June 30, 2011, SERS had a total membership of 147,716, consisting of 66,363 active members, 21,298 inactive members entitled to benefits but not yet receiving them, 59,786 retirees and beneficiaries currently receiving benefits, and 4,489 members eligible for deferred benefits. SERS members contribute a specified percentage of their salaries which varies between 4% and 12.5% depending on the applicability of federal Social Security benefits to the member and the member’s eligibility for an alternative benefits formula as provided by the Pension Code.

The *Judges’ Retirement System*, JRS, is a single-employer, public employee defined-benefit pension plan that covers judges, associate judges and, under certain conditions, the administrative director of the State courts. JRS is governed by a 5-person Board of Trustees, consisting of the State Treasurer, the Chief Justice of the Supreme Court, and 3 participating judges who are appointed by the Supreme Court. The 3 participating judges serve 3-year terms.

Participation by judges is mandatory unless a judge makes an election not to participate within 30 days of receipt of notice of the option not to participate. As of June 30, 2011, JRS had a total membership of 2,031, consisting of 968 active members, 16 inactive members entitled to benefits but not yet receiving them, and 1,047 retirees and beneficiaries currently receiving benefits. The Pension Code establishes the

JRS total contribution rate at 11.0% of salary, consisting of 7.5% for the retirement annuity, 2.5% for the survivors' annuity, and 1.0% for automatic annual increases. A JRS member may elect not to contribute to the survivor's annuity and forego such benefit.

The *General Assembly Retirement System*, GARS, is a single-employer, public employee defined-benefit pension plan that covers members of the General Assembly, State Constitutional Officers and the Clerks and Assistant Clerks of the respective Houses of the General Assembly. GARS is governed by a 7-member Board of Trustees, consisting of the President of the Senate (or his designee), 2 members of the Senate appointed by the President of the Senate; 3 members of the House of Representatives appointed by the Speaker of the House; and one person elected from the member annuitants under rules prescribed by the Board of Trustees. All appointed trustees serve 2-year terms while the elected trustee serves a 4-year term.

Participation in GARS is optional. As of June 30, 2011, GARS had a total membership of 676, consisting of 180 active members, 86 inactive members entitled to benefits but not yet receiving them, and 410 retirees and beneficiaries currently receiving benefits. The Pension Code establishes the GARS total contribution rate at 11.5% of salary, which consists of 8.5% for the retirement annuity, 2.0% for the survivors' annuity, and 1.0% for automatic annual increases. In certain circumstances, a GARS member may elect not to contribute to the survivor's annuity and forego such benefit.

With the exception of 63,808 active members of SERS, members of the Retirement Systems do not participate in Social Security through their employment with a Retirement System participating employer.

State law regulates the types of investments in which the Retirement Systems' assets may be invested. The respective Boards of Trustees of TRS and SURS manage the investments of such Retirement Systems. The Illinois State Board of Investment manages the investments of SERS, JRS and GARS. Additional information on each Retirement System's investments and investment management may be found on such Retirement System's website provided in "STATE OF ILLINOIS – WEBSITE INDEX."

As of June 30, 2011, the membership in each of the Retirement Systems and the required membership contributions as a percentage of member salary were as follows:

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TABLE 20 - MEMBERSHIP AND MEMBER CONTRIBUTIONS

Retirement System	Active Members	Inactive/ Entitled to Benefits	Retirees and Beneficiaries	Totals	Member Contribution[1]
TRS	170,190	115,295	101,352	386,837	9.40%
SURS	81,611	79,922	51,370	212,903	8.0% - 9.5%[2]
SERS	66,363	21,298	59,786	147,447	4.0% - 12.5%[3]
JRS	968	16	1,047	2,031	11.00%
GARS	180	86	410	676	11.50%
Total	319,312	216,617	213,965	749,894	

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2011.

(1) Represents the percentage of salary a member is required to contribute annually to the respective Retirement System under the pension code.

(2) Most members contribute a total of 8.0% of pensionable pay. Police officers and firefighters contribute a total of 9.5% of pensionable pay.

(3) Members covered by Social Security contribute 4% of their salary if ineligible for an alternative benefits formula and 8.5% of salary if eligible for such a formula. Members not covered by Social Security contribute 8% of their salary if ineligible for an alternative benefits formula and 12.5% of salary if eligible for such a formula.

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Please see "APPENDIX B – SUMMARY OF CERTAIN INFORMATION REGARDING THE ILLINOIS PENSION SYSTEMS" in this Official Statement for summaries of the benefit formulas and benefit maximums for each of the Retirement Systems.

DETERMINATION OF EMPLOYER CONTRIBUTIONS

Actuaries and the Actuarial Process

Under the Pension Code, the required employer contributions to fund the Retirement Systems are determined by independent actuaries on an annual basis. Actuaries use demographic and other data (such as employee age, salary and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, mortality and disability rates) to determine the amount that an employer must contribute in a given year to provide sufficient funds to the Retirement System to pay benefits when due. Each Retirement System's actuary then produces a report, called the "Actuarial Valuation," in which the actuary reports on the Retirement System's assets, liabilities and Required Annual Statutory Contribution for the following fiscal year. The actuarial reports also include information pursuant to Governmental Accounting Standards Board standards 25 and 27.

The Pension Code requires each Retirement System to produce an Actuarial Valuation within nine months of the end of such Retirement System's fiscal year. Each Retirement System hires an actuary independent of the State to prepare its Actuarial Valuation. The Actuarial Valuations are publicly available and may be obtained from the respective Retirement Systems.

Each Actuarial Valuation must be accompanied by a statement from the actuary that, to the best of its knowledge, the Actuarial Valuation is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice ("ASOP") issued by the Actuarial Standards Board, and with applicable statutes. The Required Annual Statutory Contribution is computed in accordance with the Pension Code and, more specifically, the Statutory Funding Plan. As the Statutory Funding Plan does not conform with GASB, the Required Annual Statutory Contribution certified to the State by the actuary in the Actuarial Valuation differs from the Actuarially Required Contribution,[1] as defined below, that would be required under GASB. The differences between GASB's requirements and the State's statutory requirements are discussed in "ACTUARIAL METHODS—*Actuarial Accrued Liability*" below.

The Actuarial Valuation

The primary purpose of the Actuarial Valuation is to determine the amount the State must contribute to each Retirement System in a given fiscal year to satisfy its current and future obligations to pay benefits to eligible members of the Retirement Systems as provided in the Pension Code (the "Required Annual Statutory Contribution"). To determine the Required Annual Statutory Contribution, the actuary calculates both the "Actuarial Accrued Liability" and the "Actuarial Value of Assets." The Actuarial Accrued Liability is an estimate of the present value of the benefits each Retirement System must pay to current and retired employees as a result of their employment and participation in the Retirement System. The Actuarial Accrued Liability is calculated by use of a variety of demographic and other data (such as employee age, salary and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, mortality and disability rates). The Actuarial Value of Assets reflects the value of the investments and other assets held by the Retirement System. Various methods exist for calculating the Actuarial Value of Assets. For a discussion of these methods and assumptions used to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets of the Retirement Systems, see "ACTUARIAL METHODS" and "ACTUARIAL ASSUMPTIONS" below.

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[1] GASB pronouncements refer to this concept as the Annual Required Contribution. For the convenience of the reader, this concept is referred to in the Official Statement as the Actuarially Required Contribution to differentiate it from the concept of the Required Annual Statutory Contribution and to denote the fact that the Actuarially Required Contribution is the amount an actuary would require the State to contribute in a given year, as opposed to the amount the State will be required to contribute under applicable law.

Any shortfall between the Actuarial Value of Assets and the Actuarial Accrued Liability is referred to as the "Unfunded Actuarial Accrued Liability" or "UAAL." The UAAL represents the present value of future benefits that are not matched by current plan assets. In addition, the actuary will compute the "Funded Ratio," which is the result obtained by dividing the Actuarial Value of Assets by the Actuarial Accrued Liability. The Funded Ratio and the UAAL are used to measure the financial health of a pension plan. An increasing UAAL or a decreasing Funded Ratio from year to year signals a deterioration in the financial health of a pension plan because it indicates the incurrence of additional liability without a corresponding increase in assets necessary to pay those additional liabilities. Conversely, a decreasing UAAL or an increasing Funded Ratio indicates an improvement in the financial health of a pension plan because such a change reflects a closing gap between the liabilities accrued by the pension plan and the assets necessary to pay those liabilities when they become due. A 100% Funded Ratio means existing assets are sufficient to pay the present value of future benefits to be paid over time.

The actuaries use the Actuarial Accrued Liability, the Actuarial Value of Assets and the UAAL to compute the Required Annual Statutory Contribution for each Retirement System in accordance with the Pension Code. The Pension Code sets forth the manner of calculating the Required Annual Statutory Contribution under the Statutory Funding Plan. The Statutory Funding Plan requires the State to contribute annually an amount equal to the level percent of payroll necessary to allow the Retirement Systems to achieve a 90% Funded Ratio by Fiscal Year 2045.

Statutory Funding Plan not in Accordance with GASB 25

The method of amortizing the UAAL used by the Statutory Funding Plan does not conform with the requirements of GASB 25 regarding financial reporting for defined-benefit pension plans, as more fully described below. As a result, the Required Annual Statutory Contribution determined by the Retirement Systems' actuaries, while in conformity with State law, is currently less than the contribution that would otherwise be determined in accordance with GASB standards (the "Actuarially Required Contribution"). The Actuarially Required Contribution consists of three components: (1) the portion of the present value of retirement benefits that are allocable to active members' current year of service, termed the "Normal Cost," (2) an amortized portion of the UAAL sufficient to eliminate the UAAL over a period of time (as described in "ACTUARIAL METHODS—*Actuarial Accrued Liability*" below), and (3) one year's interest, calculated at the Assumed Actuarial Rate, on the unfunded pension liability, defined as the Net Pension Obligation (as defined below). As discussed above, the Statutory Funding Plan requires the determination of the Required Annual Statutory Contribution by calculation of the level percent of payroll necessary to reach a 90% Funded Ratio by Fiscal Year 2045 and does not require elimination of the entire UAAL. See "ACTUARIAL METHODS—*Actuarial Accrued Liability*" below for a discussion of the differences between the Statutory Funding Plan and GASB 25.

ACTUARIAL METHODS

The Retirement Systems use the following actuarial methods to calculate the Actuarial Value of Assets and the Actuarial Accrued Liability.

Actuarial Value of Assets

The Actuarial Value of Assets measures the value of the assets available in the pension plan to pay benefits. Beginning with Fiscal Year 2009, the State recognizes investment gains and losses on such assets equally over a five-year period when determining the Actuarial Value of Assets. This method of valuation is called the "Asset Smoothing Method." Under the Asset Smoothing Method, the State will recognize in the current year 20% of the investment gain or loss realized in each of the previous five years. State law provides for application of the Asset Smoothing Method prospectively, beginning with Fiscal Year 2009. The Asset Smoothing Method, which is an approved method for determining the Actuarial Value of Assets under GASB 25, prevents extreme fluctuations in the Actuarial Value of Assets, the UAAL and the Funded Ratio that may otherwise occur as a result of market volatility. Asset smoothing delays recognition of both gains and losses and does not provide an Actuarial Value of Assets reflecting the fair value at the time of measurement. As a result, presenting the Actuarial Value of Assets as determined under the Asset Smoothing Method might provide a more or less favorable presentation of the current financial position of a pension plan than would a method that recognizes investment gains and losses annually.

Prior to Fiscal Year 2009, the State valued assets at fair value, recognizing all investment gains and losses as they occurred. For Fiscal Year 2009, adoption of the Asset Smoothing Method had the effect of delaying the timing of the recognition of the investment losses suffered by the Retirement Systems as a result of the 2008-2009 market downturn. Although the fair value of the Retirement Systems' assets declined by 24.8% during Fiscal Year 2009, the Retirement Systems, through application of the Asset Smoothing Method, suffered only a 1.1% reduction in the value of their assets. Furthermore, the Retirement Systems' Funded Ratio would have decreased to 38.5% if assets were measured at fair value. Through the application of the Asset Smoothing Method, however, the Retirement Systems' Funded Ratio for Fiscal Year 2009 was 50.6%. Tables 25 and 26, set forth below, reflect the Retirement Systems' Funded Ratio for Fiscal Year 2011 and Fiscal Year 2010, respectively, both measured at fair value and based on application of the Asset Smoothing Method.

Actuarial Accrued Liability

In addition to establishing the manner of measuring the Actuarial Value of Assets, the Pension Code mandates the use of the Statutory Funding Plan in calculating the Required Annual Statutory Contribution. The provisions of the Statutory Funding Plan differ from those generally accepted accounting principles established in GASB 25 in two significant respects.

First, the goal of the Statutory Funding Plan is to amortize the portion of the UAAL necessary to allow the Retirement Systems' Funded Ratio to reach 90% over a 50-year closed period, commencing in Fiscal Year 1996 and ending in Fiscal Year 2045, whereas GASB 25 requires amortization of the entire UAAL over a 30-year amortization period. Second, the Statutory Funding Plan allowed the State to contribute less than the level percent of payroll necessary to reach the desired funding level for the first 15 years of the Statutory Funding Plan (the "ramp-up" period discussed below, which ended at the conclusion of Fiscal Year 2010). In contrast, GASB 25 does not permit a ramp-up to full contributions.

A closed amortization period means that the UAAL is amortized over a fixed number of years such that the UAAL will decrease to a legally defined target (which, for the State, is a 90% Funded Ratio by 2045 in accordance with the Statutory Funding Plan) upon the passage of the amount of time established as the amortization period, provided required payments are made. For example, under the Statutory Funding Plan, the Required Annual Statutory Contribution for Fiscal Year 2011 was calculated by using a 35-year amortization period, while the Required Annual Statutory Contribution for Fiscal Year 2012 was calculated by using a 34-year amortization period. Conversely, an open amortization period has no term limit and is therefore recalculated over a new 30-year period each time a valuation is performed in accordance with GASB 25. Amortizing through use of a closed period will have the effect of decreasing the UAAL at a greater rate and will allow the State to reach its funding target by Fiscal Year 2045, *provided* that all required contributions are made. Under an open amortization period, although the UAAL would decrease in each year, the amount of time necessary to fully amortize the UAAL would be far longer because the amount amortized would decrease in each year.

These differences between GASB 25 and the Statutory Funding Plan account for the variation between the Required Annual Statutory Contribution and the Actuarially Required Contribution. See "FUNDED STATUS" herein.

Net Pension Obligation

GASB 25 requires the calculation and disclosure of the Net Pension Obligation (the "NPO") in the financial statements of the pension plan, while GASB 27 requires that amount to be disclosed in the financial statements of the employer. With respect to the Retirement Systems, the NPO is defined as the cumulative value of the annual differences between the State's actual contributions and the Actuarially

Required Contributions, starting at the point in time the State adopted generally accepted accounting principles for pension accounting and reporting as promulgated by GASB. In any year that the State contributes less than the Actuarially Required Contribution, the difference between the actual contribution and the Actuarially Required Contribution is the addition to the NPO for that year.

Table 31 presents a ten year history of the Net Pension Obligation, as reported in either the CAFRs or the Valuation Reports of each Retirement System, as calculated in accordance with GASB 25.

The unfunded pension liability reported each year as the UAAL is materially greater than the NPO for that corresponding year. As noted above, the Required Annual Statutory Contribution and the actuarial valuation reports are calculated based upon the UAAL as opposed to calculation based on the NPO measure of the unfunded pension liability.

On June 25, 2012, GASB approved GASB 67 and 68, which will impact the accounting reporting of pension plan assets and liabilities in which state and local governments participate. Major changes inlcude: (1) the inclusion of unfunded pension liabilities on the government employer's balance sheet (such unfunded liabilities are currently typically included as notes to the government's financial statements) in lieu of the NPO valuation which would no longer be required; (2) full pension costs would be shown as expenses regardless of actual contribution levels and would be measured by a significantly different method than by the use of the Actuarially Required Contribution, which calculation would no longer be required; (3) lower actuarial discount rates than currently used would be required for most pension plans and reported in the financial statements, resulting in increased liabilities and pension expenses; and (4) shorter amortization periods for unfunded liabilities would be required to be used for certain purposes of the financial statements, which generally would increase pension expenses. GASB 67 will be effective for fiscal years beginning after June 15, 2013 and GASB 68 will be effective for fiscal years beginning after June 15, 2014.

ACTUARIAL ASSUMPTIONS

General

The Actuarial Valuations of the Retirement Systems use a variety of assumptions to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets. Although several of the assumptions are the same across all of the Retirement Systems, each Retirement System determines, within actuarial standards, the assumptions to be used in its Actuarial Valuation, unless a specific assumption is fixed by the Pension Code. No assurance can be given that any of the assumptions underlying the Actuarial Valuations will reflect the actual results experienced by the Retirement Systems. Variances between the assumptions and actual results may cause an increase or decrease in the Actuarial Value of Assets, the Actuarial Accrued Liability, the UAAL, the Funded Ratio or the Actuarially Required Contribution. Certain of these assumptions are summarized in Table 21. For additional information on these assumptions, please see each Retirement System's Actuarial Valuation.

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TABLE 21 - CERTAIN ACTUARIAL ASSUMPTIONS USED BY THE RETIREMENT SYSTEMS

	TRS	SURS	SERS	GARS	JRS
Actuarial Cost Method(1)	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Investment Rate of Return(2)	8.50%	7.75%	7.75%	7.00%	7.00%
Assumed Inflation Rate	3.50%	2.75%	3.00%	3.00%	3.00%
Post-Retirement Increase	3.00%	3.00%	3.00%	3.00%	3.00%
Projected Salary Increases	7.00%(3)	3.75% to 12.0%(4)	4.00% to 8.35%(5)	4.00%(6)	4.00%(6)

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2011.

(1) Under the projected unit credit actuarial cost method, the actuarial liability is the actuarial present value of that portion of a participant's projected benefit that is attributable to service to date on the basis of future compensation projected to retirement. The Normal Cost represents the actuarial present value of the participant's projected benefit that is attributable to service in the current year, again based on future compensation projected to retirement.

(2) In fiscal year ending June 30, 2010, SURS and SERS reduced their assumed investment rates of return from 8.5% to 7.75% and JRS reduced their assumed rate from 8.0% to 7.0%. Beginning in fiscal year ending June 30, 2011, GARS reduced their assumed investment rate of return from 8.0% to 7.0%.

(3) Represents a composite of projected salary increases which vary between 6.0% (at age 60) and 11.1% (at age 20). Includes inflation (3.50%) and real wage growth (1.20%) assumptions.

(4) Each member's compensation is assumed to increase by 3.75% each year, 2.75% reflecting salary inflation and 1.00% reflecting standard of living increases. For members with less than 34 years of service, an additional projected salary increase factor is added to the assumed rate.

(5) Rates depend on member age.

(6) Includes inflation component of 3.0% and a seniority/merit component of 1.0%.

The Pension Code requires each of the Retirement Systems to conduct an actuarial experience review every five years. SURS, SERS, GARS and JRS conducted actuarial experience reviews in 2011. The TRS actuarial experience review will take place in 2012. The purpose of the experience review is to determine the adequacy of the actuarial assumptions regarding mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the Retirement Systems. Based upon the results of this review, the board of the applicable Retirement System may adopt such actuarial assumptions as it deems appropriate.

Assumed Investment Rate of Return

The Actuarial Valuations assume an investment rate of return on the assets in each Retirement System. For the fiscal year ending June 30, 2009, each Retirement System assumed an investment rate of return of either 8.00% or 8.50%. SURS and SERS reduced their assumed investment rate of return to 7.75% and JRS reduced its assumed investment rate of return to assumed investment rate of return to 7.00% for the Actuarial Valuations issued for the fiscal year ending June 30, 2010. GARS reduced its assumed investment rate of return to 7.00% for the Actuarial Valuations issued for the fiscal year ending June 30, 2011. On August 23, 2012, the TRS Board of Trustees received a recommendation for its actuary to reduce the TRS assumed investment rate of return from 8.50% to either 8.25%, 8.00% or 7.75%. The TRS Board of Trustees indicated that it would make a final decision on this recommendation later in 2012. The reductions previously approved by SURS, SERS, JRS and GARS, and any reduction approved by TRS, will have the effect of increasing the UAAL and the Required Annual Statutory Contribution because the Retirement Systems now assume that plan assets will produce less income to pay projected benefits. Due to the volatility of the marketplace, however, the actual rate of return earned by the Retirement Systems on their assets may be higher or lower than the assumed rate. See Table 22 for the rates of return on the Retirement Systems' assets for the last ten fiscal years. Changes in the Retirement Systems' assets as a result of market performance will lead to an increase or decrease in the UAAL and the Funded Ratio. As a result of the State's adoption of the Asset Smoothing Method, however, only a portion of these increases or decreases will be recognized in the current year, with the remaining gain or loss spread over the remaining four years. See "Actuarial Methods—*Actuarial Value of Assets*" above.

Adverse market conditions resulted in negative investment returns on the Retirement Systems' assets in Fiscal Years 2008 and 2009, resulting in a significant reduction in the Funded Ratio and a corresponding increase in the UAAL. Although positive investment returns were achieved in Fiscal Years 2010 and 2011, no assurance can be given that negative trends in investment performance will not occur again in subsequent Fiscal Years, thereby resulting in a reduction in the Funded Ratio and a corresponding increase in the UAAL.

TABLE 22 - INVESTMENT RATES OF RETURN, 2002-2011

	TRS		SURS		SERS		GARS		JRS	
Fiscal Year	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*
2002	8.50%	-3.2%	8.50%	-6.1%	8.50%	-6.9%	8.00%	-6.9%	8.00%	-6.9%
2003	8.50%	4.9%	8.50%	2.9%	8.50%	0.3%	8.00%	0.3%	8.00%	0.3%
2004	8.50%	16.5%	8.50%	17.0%	8.50%	16.4%	8.00%	16.4%	8.00%	16.4%
2005	8.50%	10.8%	8.50%	10.4%	8.50%	10.1%	8.00%	10.1%	8.00%	10.1%
2006	8.50%	11.8%	8.50%	11.7%	8.50%	11.0%	8.00%	11.0%	8.00%	11.0%
2007	8.50%	19.2%	8.50%	18.3%	8.50%	17.1%	8.00%	17.1%	8.00%	17.1%
2008	8.50%	-5.0%	8.50%	-4.5%	8.50%	-6.2%	8.00%	-6.2%	8.00%	-6.2%
2009	8.50%	-22.7%	8.50%	-19.7%	8.50%	-20.1%	8.00%	-20.1%	8.00%	-20.1%
2010	8.50%	12.9%	7.75%	15.0%	7.75%	9.1%	8.00%	9.1%	7.00%	9.1%
2011	8.50%	23.6%	7.75%	23.8%	7.75%	21.7%	7.00%	21.7%	7.00%	21.7%
5-Yr. Avg. Return	-	4.1%	-	5.3%	-	3.1%	-	3.1%	-	3.1%
10-Yr Avg. Return	-	6.0%	-	6.1%	-	4.5%	-	4.5%	-	4.5%

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2002 through June 30, 2010. Information for Fiscal Year 2011 was provided by the Retirement Systems.

HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS

Under the Pension Code, the State is required to make the Required Annual Statutory Contribution in each fiscal year.

Prior to fiscal year 1995, the State did not adequately fund the Retirement Systems such that the UAAL began to increase and the Funded Ratio began to decrease. To combat this escalation in the UAAL, the General Assembly enacted the Pension Funding Act in 1994. The Pension Funding Act created a 50-year schedule of State contributions to the Retirement Systems designed to achieve a 90% Funded Ratio by the end of Fiscal Year 2045 (the "Statutory Funding Plan"). In each fiscal year beyond Fiscal Year 2045, the Pension Funding Act requires that the State annually contribute the amount necessary to maintain the Funded Ratio at 90% for each Retirement System.

The Statutory Funding Plan consists of two parts: (i) a ramp-up period of increasing State contributions as a percentage of payroll in each of the fiscal years 1996 to 2010 and (ii) a period of contributions equal to the level percent of payroll necessary to cause the assets of the Retirement Systems to equal 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. During the ramp-up period, the Statutory Funding Plan required that the percentage of payroll contributed by the State increase by an equal amount in each year such that by Fiscal Year 2010 the contribution percentage of payroll was equal to the same percentage of payroll required to be contributed for years 2011 through 2045.

The State made the Required Annual Statutory Contribution for each of the fiscal years 1996 through 2002. These contributions were not sufficient to cover the full Actuarially Required Contributions, determined under GASB, for such fiscal years. As a result, the UAAL continued to grow during the ramp-up period. See "Determination of Employer Contributions—*Actuaries and the Actuarial Process*" and "Actuarial Methods—*Actuarial Accrued Liability*" above.

On June 12, 2003, the State issued $10 billion of general obligation pension funding bonds (the "2003 Pension Bonds") pursuant to authority granted by the General Assembly in Public Act 93-0002 (the "2003 Pension Bond Act"). The net proceeds of the 2003 Pension Bonds were used to (i) reimburse the State's General Revenue Fund for $300 million of the Required Annual Statutory Contribution made for Fiscal Year 2003, (ii) provide funding to the State's General Revenue Fund for the full Fiscal Year 2004 Required Annual Statutory Contribution in the amount of $1.86 billion and (iii) fund a portion of the UAAL in the amount of $7.3 billion. As a result, the State funded approximately 25% of its Fiscal Year 2003 Required Annual Statutory Contribution and all of its Fiscal Year 2004 Required Annual Statutory Contribution from the proceeds of the 2003 Pension Bonds and not from the General Revenue Fund. The 2003 Pension Bond Act also provided that the State's Required Annual Statutory Contributions be reduced in each fiscal year, beginning in Fiscal Year 2005, by the State's debt service payments on the 2003 Pension Bonds, allocated among the Retirement Systems. See Table 23 below for a schedule of the annual debt service payments on the 2003 Pension Bonds.

The $7.3 billion contribution from the proceeds of the 2003 Pension Bonds directly reduced the UAAL. The reduction of future Required Annual Statutory Contributions by the debt service payments on the 2003 Pension Bonds has the effect of increasing the UAAL, however, because the State will not make the full contribution originally required by the Statutory Funding Plan as a result of this reduction. At the time of the issuance of the 2003 Pension Bonds, the State assumed that the investment returns made on the 2003 Pension Bond proceeds used to reduce the UAAL would be greater than the debt service on the 2003 Pension Bonds, creating a net decrease in the UAAL in each year. Since the total interest cost percentage of the 2003 Pension Bonds at date of issuance was 5.05%, then in any year that the actual returns, as reported in Table 22, exceeded in each specific year the amount of the debt service payments reflected in the Table below, the UAAL was effectively reduced from what the UAAL would have been had those bonds not been issued and proceeds not provided to the State's pension systems. Conversely, in those fiscal years when the actual returns reported in Table 22 were less than total interest cost percentage on the 2003 Pension Bonds, the UAAL was effectively increased from what the UAAL would have been had those bonds not been issued and proceeds provided to the State's pension systems. While the Retirement Systems saw positive investment returns in Fiscal Year 2010 and 2011, no assurance can be given that future negative investment trends or legislation affecting the Statutory Funding Plan will not occur, causing a further increase in the UAAL.

TABLE 23 - DEBT SERVICE ON 2003 PENSION BONDS[(1)]

FISCAL YEAR	DEBT SERVICE DUE ON 2003 PENSION BONDS	FISCAL YEAR	DEBT SERVICE DUE ON 2003 PENSION BONDS
2010	$ 543.6	2022	$ 749.8
2011	541.9	2023	783.7
2012	590.1	2024	840.2
2013	586.4	2025	892.2
2014	582.5	2026	915.4
2015	578.6	2027	936.1
2016	574.5	2028	979.2
2017	595.2	2029	1,018.5
2018	614.7	2030	1,079.0
2019	633.2	2031	1,134.4
2020	674.6	2032	1,159.7
2021	713.4	2033	1,156.1

(1) In millions of dollars.

In Fiscal Year 2005, the State made the Required Annual Statutory Contribution, which included a reduction by an amount equal to the debt service due on the 2003 Pension Bonds in that year. The UAAL increased in 2005 despite the State making the full Required Annual Statutory Contribution because the Required Annual Statutory Contribution was less than the Actuarially Required Contribution.

State contributions to the Retirement Systems for fiscal years 2006 and 2007 were governed by the provisions of Public Act 94-0004 ("P.A. 94-4"). P.A. 94-4 modified the Statutory Funding Plan to specify reduced Required Annual Statutory Contributions for these two fiscal years. These reduced contributions were also lower than the Actuarially Required Contributions for such fiscal years. Under the provisions of the Statutory Funding Plan as originally constituted in the Pension Funding Act, the State would have been required to contribute \$2.1172 billion in Fiscal Year 2006 and \$2.5078 billion in Fiscal Year 2007. P.A. 94-4 reduced these contributions to \$0.9384 billion and \$1.3723 billion, respectively, which represented reductions of 55.67% and 45.28%, respectively. The contribution reductions required by P.A. 94-4 had the dual effect of increasing the UAAL and delaying payment of the deferred portion of the contribution to a future fiscal year.

The State made the full Required Annual Statutory Contributions for fiscal years 2008 and 2009. As previously described, however, these contributions were reduced by the amount of debt service due in each fiscal year on the 2003 Pension Bonds. The UAAL increased despite the State making the Required Annual Statutory Contributions under the Statutory Funding Plan as a result of poor investment performance.

With respect to the State's contribution to the Retirement Systems for Fiscal Year 2010, the General Assembly enacted Public Act 96-0043 (the "2010 Pension Bond Act"), which set the State contribution for Fiscal Year 2010 at \$3.6048 billion. On January 7, 2010, the State issued \$3.466 billion of general obligation pension funding bonds (the "2010 Pension Bonds") to fund a portion of the Fiscal Year 2010 Required Annual Statutory Contribution. The 2010 Pension Bond Act does not provide that the Required Annual Statutory Contribution be reduced by the debt service payments on the 2010 Pension Bonds. In Fiscal Year 2010, the UAAL increased even though the State made the Required Annual Statutory Contribution, because such contribution was lower than the Actuarially Required Contribution.

Pursuant to the authorization under P.A. 96-1497 (the "2011 Pension Bond Act"), the State issued \$3.7 billion in general obligation pension funding bonds (the "2011 Pension Bonds") to fund a portion of the Required Annual Statutory Contribution for Fiscal Year 2011. The 2011 Pension Bond Act does not provide that the Required Annual Statutory Contribution be reduced by the debt service payments on the 2011 Pension Bonds.

The State made all required Fiscal Year 2012 payments to the Retirement Systems but certain of the required monthly payments were not made on a timely basis. In the past, the Retirement Systems have sold assets to pay benefits as a result of a deficit between the contributions actually received (plus investment returns earned) by the Retirement Systems and their annual expenditures, including benefit payments. Failures by the State to make its payments to the Retirement Systems on a timely basis can exacerbate the pace at which the Retirement Systems may be required to sell assets to meet benefit payment requirements. If these sold assets are not replaced, the Actuarial Value of Assets will decrease and the UAAL will increase because the Retirement Systems will no longer have those assets, or the investment earnings on those assets, to pay benefits in the future.

Pursuant to the Statutory Funding Plan, commencing with Fiscal Year 2011, the State is required to make contributions to the Retirement Systems at the level percentage of payroll necessary to increase the Funded Ratio to 90% by the end of Fiscal Year 2045. The State's ability to make the required contributions under the Statutory Funding Plan is subject to the State having the funds necessary to make the contributions required under the plan. The availability of such funds will require funded appropriations and payment of revenues collected thereunder to the Retirement Systems by the State or the issuance of additional pension obligation bonds. No assurances can be given that the State will have the revenues necessary to fund the Retirement Systems from continuing operations, that payments from revenues will be made to the Retirement Systems or that such bonds will be issued. If the State for any reason does not contribute the Required Annual Statutory Contribution in Fiscal Year 2012 and in future years, the UAAL will increase, the Funded Ratio will decrease and it is unlikely that the State will be able to achieve a 90% Funded Ratio by the end of Fiscal Year 2045. If the State issues additional pension obligation bonds to make the Required Annual Statutory Contribution in any year and reduces future Required Annual Statutory Contributions by the amount of the debt service on such bonds, the UAAL will increase by the amount of such debt service. No assurance can be given that the State will not, through legislative action, subsequently modify the amount required to be contributed in any given year.

Table 24 shows the State's Actuarially Required Contributions along with the percentage of those contributions actually made in each of 2002 through 2011.

TABLE 24 - HISTORY OF STATE CONTRIBUTIONS[1]

Fiscal Year	Amount Contributed	Actuarially Required Contribution Per GASB 25	Percentage Contributed
2002	$1,533.28	$1,959.31	78.26%
2003	1,685.50	2,535.59	66.47%
2004[2]	9,177.07	2,656.36	345.48%
2005	1,735.11	3,084.49	56.25%
2006	1,022.70	3,085.60	33.14%
2007	1,479.40	3,665.60	40.36%
2008	2,145.00	3,729.20	57.52%
2009	2,891.90	4,076.40	70.94%
2010	4,130.90	4,786.80	86.30%
2011	4,298.57	5,906.59	72.78%

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2011. Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2002 through June 30, 2010.

(1) In millions of dollars.

(2) Proceeds from the Pension Obligation Bonds of 2003 were received at the very beginning of Fiscal Year 2004. The amount contributed for Fiscal Year 2004 was $1.86 billion and the remaining contribution from proceeds was $7.3 billion to fund a portion of the UAAL.

FUNDED STATUS

As of the end of Fiscal Year 2011, the Retirement Systems had an aggregate UAAL of approximately $83.078 billion on a fair value basis and $82.907 billion on an actuarial basis (using the Asset Smoothing Method), resulting in respective Funded Ratios of 43.3% and 43.4%. The Retirement Systems' aggregate UAAL increased between the end of Fiscal Year 2010 and the end of Fiscal Year 2011 primarily as a result of insufficient State contributions, as compared to the Actuarially Required Contribution. Other factors affecting contributing to the increased UAALs from Fiscal Year 2010 to Fiscal Year 2011 include assumption changes adopted for the Fiscal Year 2011 valuation for the applicable Retirement Systems for which a valuation was required and actual experience differences from other actuarial assumptions.

The following tables summarize the financial condition for Fiscal Years 2007 through 2011.

TABLE 25
FINANCIAL CONDITION OF THE STATE RETIREMENT SYSTEMS
FISCAL YEAR 2011
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$9,201,831	$31,323,784	$12,121,542	$54,691	$523,276	$53,225,125	$719,980
Income							
Member Contributions	$254,201	$909,577	$260,177	$2,006	$16,725	$1,442,687	$49,757
State and Employer Contributions	1,127,887	2,326,029	773,595	11,444	62,694	4,301,648	44,841
Investment Income	1,930,208	7,234,539	2,801,109	10,291	105,258	12,081,406	172,506
Total	$3,312,297	$10,470,145	$3,834,881	$23,741	$184,678	$17,825,742	$267,104
Expenditures							
Benefits and Refunds	$1,529,640	$4,304,870	$1,670,146	$17,738	$101,372	$7,623,765	$26,202
Administration	13,735	17,792	12,274	299	622	44,722	344
Total	$1,543,375	$4,322,662	$1,682,420	$18,037	$101,994	$7,668,487	$26,546
Ending Net Assets (Fair value)	$10,970,753	$37,471,267	$14,274,003	$60,395	$605,960	$63,382,378	$960,538
Actuarial Value of Assets	11,159,837	37,769,753	13,945,680	63,161	614,596	63,553,027	N/A
Actuarial Accrued Liabilities	31,395,008	81,299,745	31,514,336	298,408	1,952,539	146,460,037	N/A
UAAL (Fair Value)	20,424,255	43,828,478	17,240,333	238,013	1,346,579	83,077,658	N/A
UAAL (Actuarial Value)[3]	20,235,171	43,529,992	17,568,656	235,247	1,337,943	82,907,009	N/A
Funded Ratio (Fair Value)	34.9%	46.1%	45.3%	20.2%	31.0%	43.3%	N/A
Funded Ratio (Actuarial Value)[3]	35.5%	46.5%	44.3%	21.2%	31.5%	43.4%	N/A

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2011, and the Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2010. Table may not add due to rounding. Certain information was provided by the Retirement Systems.

(1) The SURS Self Managed Plan ("SMP") 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. See "BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS" above.

(2) Reflects valuation of assets on a fair value basis as of June 30, 2010, per GASB Statement 25.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "ACTUARIAL METHODS--Actuarial Value of Assets" above.

TABLE 26
FINANCIAL CONDITION OF THE STATE RETIREMENT SYSTEMS
FISCAL YEAR 2010
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS (1)
Beginning Net Assets (2)	$8,477,852	$28,497,729	$11,032,973	$55,092	$478,876	$48,542,522	$573,595
Income							
Member Contributions	$246,173	$899,401	$275,000	$1,681	$16,002	$1,438,256	$43,117
State and Employer Contributions	1,095,546	2,252,150	696,595	10,411	78,510	4,133,212	48,571
Investment Income	799,896	3,679,643	1,653,853	4,771	42,532	6,180,695	71,482
Total	$2,141,615	$6,831,194	$2,625,448	$16,862	$137,044	$11,752,163	$163,170
Expenditures							
Benefits and Refunds	$1,405,915	$3,988,188	$1,524,771	$16,991	$92,080	$7,027,945	$16,437
Administration	11,721	16,951	12,108	272	564	41,616	347
Total	$1,417,636	$4,005,139	$1,536,879	$17,263	$92,644	$7,069,561	$16,785
Ending Net Assets (Fair value)	$9,201,831	$31,323,784	$12,121,542	$54,691	$523,276	$53,225,124	$719,980
Actuarial Value of Assets	10,961,540	37,439,092	13,966,643	66,212	619,926	63,053,413	N/A
Actuarial Accrued Liabilities	29,309,464	77,293,198	30,120,427	251,765	1,819,448	138,794,302	N/A
UAAL (Fair Value)	20,107,634	45,969,414	17,998,885	197,074	1,296,172	85,569,179	N/A
UAAL (Actuarial Value) (3)	18,347,924	39,854,106	16,153,784	185,553	1,199,522	75,740,889	N/A
Funded Ratio (Fair Value)	31.4%	40.5%	40.2%	21.7%	28.8%	38.3%	N/A
Funded Ratio (Actuarial Value) (3)	37.4%	48.4%	46.4%	26.3%	34.1%	45.4%	N/A

Source: Actuarial Valuations of the Retirement Systems and the Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2010. Table may not add due to rounding.

(1) The SURS Self Managed Plan ("SMP") 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. See "BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS" above.

(2) Reflects valuation of assets on a fair value basis as of June 30, 2009, per GASB Statement 25.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "ACTUARIAL METHODS--Actuarial Value of Assets" above.

TABLE 27
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2009
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[(1)]
Beginning Net Assets[(2)]	$10,995,367	$38,430,723	$14,586,326	$75,406	$612,681	$64,700,502	$616,385
Income							
Member Contributions	$242,227	$876,182	$273,292	$1,698	$15,763	$1,409,163	$48,825
State and Employer Contributions	774,910	1,603,921	451,617	8,856	59,983	2,899,287	38,264
Investment Income	(2,208,898)	(8,688,286)	(2,850,697)	(14,662)	(122,717)	(13,885,259)	(116,423)
Total	($1,191,760)	($6,208,183)	($2,125,788)	($4,108)	($46,970)	($9,576,809)	($29,333)
Expenditures							
Benefits and Refunds	$1,315,073	$3,707,423	$1,414,642	$15,929	$86,269	$6,539,336	$13,457
Administration	10,681	17,388	12,922	277	566	41,834	
Total	$1,325,755	$3,724,811	$1,427,564	$16,206	$86,834	$6,581,170	$13,457
Ending Net Assets (Fair value)	$8,477,852	$28,497,729	$11,032,973	$55,092	$478,876	$48,542,523	N/A
Actuarial Value of Assets	10,999,954	38,026,044	14,281,998	71,574	616,849	63,996,418	N/A
Actuarial Accrued Liabilities	25,298,346	73,027,198	26,316,231	245,226	1,548,510	126,435,511	N/A
UAAL (Fair Value)	16,820,494	44,529,469	15,283,258	190,134	1,069,633	77,892,988	N/A
UAAL (Actuarial Value)[(3)]	14,298,393	35,001,155	12,034,233	173,652	931,661	62,439,093	N/A
Funded Ratio (Fair Value)	33.5%	39.0%	41.9%	22.5%	30.9%	38.4%	N/A
Funded Ratio (Actuarial Value)[(3)]	43.5%	52.1%	54.3%	29.2%	39.8%	50.6%	N/A

Source: Actuarial Valuations of the Retirement Systems and the Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2009. Table may not add due to rounding.

(1) The SURS Self Managed Plan ("SMP") 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. See "BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS" above.

(2) Reflects valuation of assets on a fair value basis as of June 30, 2008, per GASB Statement 25.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "ACTUARIAL METHODS--Actuarial Value of Assets" above.

TABLE 28
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2008
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$12,078,909	$41,909,318	$15,985,730	$87,182	$670,091	$70,731,230	$584,020
Income							
Member Contributions	$249,955	$865,400	$264,149	$1,773	$15,443	$1,396,721	$45,952
State and Employer Contributions	587,732	1,171,788	344,945	6,810	46,978	2,158,253	38,954
Investment Income	(680,760)	(2,014,902)	(675,722)	(4,708)	(37,977)	(3,414,069)	(39,127)
Total	$156,928	$22,286	-$66,627	$3,874	$24,445	$140,905	$45,779
Expenditures							
Benefits and Refunds	$1,230,933	$3,484,268	$1,320,698	$15,406	$81,355	$6,132,660	$13,414
Administration	9,537	16,613	12,079	244	500	38,974	
Total	$1,240,470	$3,500,881	$1,332,777	$15,651	$81,855	$6,171,634	$13,414
Ending Net Assets	$10,995,367	$38,430,723	$14,586,326	$75,406	$612,681	$64,700,502	$616,385
Actuarial Accrued Liabilities	23,841,280	68,632,367	24,917,678	235,780	1,457,336	119,084,441	N/A
UAAL	12,845,914	30,201,644	10,331,353	160,374	844,656	54,383,940	N/A
Funded Ratio	46.1%	56.0%	58.5%	32.0%	42.0%	54.3%	N/A

Source: Actuarial Valuations of the Retirement Systems and Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2008. Table may not add due to rounding.

(1) The SURS Self Managed Plan (SMP) 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 fair value basis as of June 30, 2007, per GASB Statement 25.

TABLE 29
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2007
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$10,899,853	$36,584,889	$14,175,147	$82,255	$599,234	$62,341,379	$350,181
Income							
Member Contributions	$224,773	$826,249	$262,351	$1,703	$14,153	$1,329,229	$33,309
State and Employer Contributions	358,787	853,586	261,143	5,470	35,237	1,514,223	41,642
Investment Income	1,779,907	6,831,324	2,517,496	12,991	98,158	11,239,876	80,335
Total	$2,363,466	$8,511,159	$3,040,989	$20,165	$147,548	$14,083,327	$155,286
Expenditures							
Benefits and Refunds	$1,175,553	$3,171,485	$1,218,702	$15,017	$76,237	$5,656,993	$15,280
Administration	8,808	15,246	11,705	220	454	36,433	
Total	$1,184,361	$3,186,731	$1,230,406	$15,237	$76,691	$5,693,426	$15,280
Ending Net Assets	$12,078,909	$41,909,318	$15,985,730	$87,182	$670,091	$70,731,230	$584,020
Actuarial Accrued Liabilities	22,280,917	65,648,395	23,362,079	231,914	1,385,340	112,908,645	N/A
UAAL	10,202,008	23,739,077	7,376,349	144,732	715,249	42,177,414	N/A
Funded Ratio	54.2%	63.8%	68.4%	37.6%	48.4%	62.6%	N/A

Source: Actuarial Valuations of the Retirement Systems and the Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2007. Table may not add due to rounding.

(1) The SURS Self Managed Plan (SMP) 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 fair value basis as of June 30, 2006, per GASB Statement 25.

Tables 30 and 31 present information as required by GASB 27 for Fiscal Years 2002 through 2011. Table 30 provides aggregate funding progress for the Retirement Systems, including comparisons to UAAL and Funded Ratio. Table 31 provides a schedule of the Net Pension Obligation for each Retirement System and for the Retirement Systems in the aggregate. For additional information about the Net Pension Obligation, see "ACTUARIAL METHODS—*Net Pension Obligation*" above.

TABLE 30 - SCHEDULE OF FUNDING PROGRESS(1)

Fiscal Year	**Actuarial Value of Assets(2)**	**Actuarial Accrued Liability**	**Unfunded Accrued Actuarial Liabilities (UAAL)(2)**	**Funded Ratio(2)**	**Payroll**	**UAAL as a Percentage of Payroll(2)**
	(a)	(b)	(b-a)	(a/b)	(c)	([b-a]/c)
2002	$40,238.98	$75,253.53	$35,014.55	53.5%	$13,241.45	264.4%
2003	40,925.69	83,905.02	42,979.32	48.8%	13,601.60	316.0%
2004	54,769.42	89,912.82	35,143.40	60.9%	13,675.84	257.0%
2005	58,577.90	97,179.00	38,601.10	60.3%	14,106.80	273.6%
2006	62,341.40	103,073.50	40,732.10	60.5%	14,540.50	280.1%
2007	70,731.20	112,908.60	42,177.40	62.6%	15,249.20	276.6%
2008	64,700.50	119,084.40	54,383.90	54.3%	15,949.20	341.0%
2009	63,996.42	126,435.51	62,439.09	50.6%	16,606.60	376.0%
2010	63,053.40	138,794.30	75,740.90	45.4%	17,042.20	444.4%
2011	63,553.03	146,460.04	82,907.01	43.4%	17,061.93	485.9%
2009(3)	48,542.52	126,435.51	77,892.99	38.4%	16,606.60	469.0%
2010(3)	53,225.10	138,794.30	85,569.20	38.3%	17,042.20	502.1%
2011(3)	63,382.38	146,460.04	83,077.66	43.3%	17,061.93	486.9%

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2002 through June 30, 2010 and Actuarial Valuations of the Retirement Systems as of June 30, 2011.

(1) In millions of dollars. Table may not add due to rounding.

(2) For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was determined in accordance with the Asset Smoothing Method. See discussion of Asset Smoothing Method under "ACTUARIAL METHODS - *Actuarial Value of Assets*" above.

(3) Measures the Actuarial Value of Assets at fair value.

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TABLE 31 - NET PENSION OBLIGATION[1]

Fiscal Year	TRS	SURS	SERS	GARS	JRS	Total
2002	$8,867.9	$4,349.0	$1,065.1	$51.7	$299.2	$14,632.9
2003	9,658.9	4,812.9	1,142.4	55.8	331.5	$16,001.5
2004	6,272.9	3,910.0	-105.6	33.6	227.5	$10,338.4
2005	7,183.9	4,361.9	190.9	38.4	261.0	$12,036.1
2006	8,508.6	4,984.3	658.9	44.1	303.5	$14,499.4
2007	9,971.1	5,584.5	1,135.5	50.0	349.7	$17,090.8
2008	11,075.7	6,121.0	1,554.6	55.0	386.0	$19,192.3
2009	11,954.0	6,734.2	1,814.5	58.6	413.4	$20,974.7
2010	12,586.1	7,250.8	1,933.3	61.6	431.5	$22,263.3
2011	13,418.7	7,941.1	2,131.5	64.7	470.1	$24,026.1

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2002 through June 30, 2010 and Actuarial Valuations of the Retirement Systems as of June 30, 2011. Certain information related to Fiscal Year 2011 was provided by the Retirement Systems.

(1) In millions of dollars. Table may not add due to rounding.

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A variety of factors impact the Retirement Systems' UAAL and Funded Ratio. Increases in member salary and benefits, a lower return on investment than that assumed by the Retirement Systems and insufficient contributions when compared to the Normal Cost plus interest will all cause an increase in the UAAL and a decrease in the Funded Ratio. Conversely, decreases in member salary and benefits, a higher return on investment than assumed and employer contributions in excess of Normal Cost plus interest will decrease the UAAL and increase the funded ratio. In addition, changes in actuarial assumptions and certain other factors will have an impact on the UAAL and the Funded Ratio, as set forth in Table 32 below. No assurances can be given that the State will make the appropriations necessary to meet any escalating costs incurred by the Retirement Systems.

TABLE 32 - COMPONENTS OF CHANGE IN UNFUNDED LIABILITY

Fiscal Year	Salary Increases/ (Decreases)	Investment Returns (Higher)/Lower Than Assumed	Employer Contributions (Higher)/Lower than Normal Cost Plus Interest(2)(4)	Benefit Increases	Changes In Actuarial Assumptions	Other Factors(3)	Total Change in Unfunded Liability From Previous Year
2002	134.4	5,575.4	1,741.0	234.1	1,377.8	903.4	9,966.1
2003	125.6	2,071.5	2,435.1	2,425.0	-	1,101.0	8,158.3
2004	135.7	(3,841.8)	(4,689.8)	-	-	385.3	(8,010.6)
2005	35.1	(1,033.6)	2,431.5	-	26.4	2,048.3	3,507.8
2006	108.3	(1,843.1)	3,484.5	-	704.6	(323.2)	2,131.2
2007	314.9	(6,064.1)	3,321.0	-	2,735.2	1,138.3	1,445.2
2008	72.8	9,312.3	2,785.9	-	-	35.5	12,206.5
2009	(105.8)	7,080.7	3,237.0	-	-	1,097.7	8,055.2
2010	(424.1)	4,818.1	2,746.1	-	5,209.1	950.5	13,301.8
2011	(847.3)	2,667.2	3,666.1	-	581.3	1,098.7	7,166.2
Total	(450.4)	18,742.6	21,158.4	2,659.1	10,634.4	8,435.5	57,927.7

Source: Commission on Government Forecasting and Accountability, Report on the Financial Condition of the Illinois Retirement Systems: Financial Condition as of June 30, 2010. See "RECENT REPORTS REGARDING THE RETIREMENT SYSTEMS - Report of the Commission on Government Forecasting and Accountability." Fiscal year 2011 data compiled from the annual Actuarial Valuations of the Retirement Systems as of June 30, 2011.

(1) In millions. Table may not add due to rounding.

(2) To determine whether employer contributions represented an increase or decrease in UAAL, such contributions are measured against contributions based on the Normal Cost plus interest. If employer contributions exceed Normal Cost plus interest, the UAAL will decrease. If employer contributions are less than Normal Cost plus interest, the UAAL will increase.

(3) Other factors include, but are not limited to, higher or lower incidences of retirement, disability, in-servie mortality, retiree mortality or terminations than assumed.

(4) Includes 2003 Pension Bonds. See "HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS" above.

2010 LEGISLATION MODIFYING BENEFIT STRUCTURE

The State has not provided significant benefit enhancements for Retirement System members since 2003.

On March 24, 2010, the General Assembly enacted Public Act 96-0889 ("P.A. 96-889"). P.A. 96-889 provided for significant reforms to the Retirement Systems, most notably by establishing a "two-tier" benefit system with less generous benefits for future employees who become members of the Retirement Systems after January 1, 2011, as compared to those provided to State employees who commenced employment prior to January 1, 2011. Among other reforms, P.A. 96-889:

- Increased the minimum age at which an active employee may retire with unreduced benefits to age 67 for employees hired after January 1, 2011, from age 60 or younger based on a formula combining the age of the employee and the number of years of service;
- Reduced the cost of living adjustment to the lower of 3% or 50% of the annual change in the consumer price index for all urban consumers ("CPI")(for JRS and GARS, the annual change in such CPI) and eliminates compounding for employees hired after January 1, 2011;
- Calculates benefits based on the highest continuous eight years of compensation in the employee's last 10 years of employment for employees hired after January 1, 2011, from a calculation based on the highest four consecutive year average compensation;
- Capped the salary on which a pension may be calculated at $106,800 (subject to certain adjustments for inflation); and
- Suspends retirement annuities if the annuitant accepts another public sector job covered by a public retirement system.

P.A. 96-889 did not impact persons that first became members or participants prior to its effective date of January 1, 2011.

Taken independently of any other legislative or market effects, the reduced benefits afforded new hires by P.A. 96-889 is expected to reduce the growth in the Actuarial Accrued Liability, the UAAL and the Required Annual Statutory Contribution. In calculating the Actuarial Accrued Liability, the actuaries make assumptions about future benefit levels. As the value of future benefits decreases, as will occur when a greater percentage of the State's workforce is covered by P.A. 96-889, the Actuarial Accrued Liability is expected to decrease. Consequently, the UAAL is expected to decrease and the Funded Ratio to improve. As the growth in the UAAL slows, the Required Annual Statutory Contribution is expected to be reduced as the amount of UAAL to be amortized decreases.

Because the actuarial calculations look to the future to determine the amount of assets and liabilities that will accumulate over time, under the current Statutory Funding Plan the reduction in future benefits caused an immediate reduction in the amount that the State was required to contribute to the Retirement Systems in Fiscal Year 2011. See Table 33 for the projected future Required Annual Statutory Contributions under the Statutory Funding Plan before and after enactment of P.A. 96-889. In the long-term, this decrease in future benefits is expected to reduce the sum of contributions required to reach a Funded Ratio of 90% because the total benefits for which the State will be liable should decrease as more employees are covered by the lower benefits, assuming a relatively static pool of employees. In the short-term, however, these decreased contributions are expected to have the effect of increasing the UAAL because the majority of employees earning benefits in the short-term will earn those benefits under the provisions of the former plan. Therefore, although the cost of benefits will not change dramatically until a large portion of employees are covered by the new benefits, in the short-term the amount of the Required Annual Statutory Contribution will decrease, driving the UAAL up and the Funded Ratio down.

Table 33 was prepared solely to compare projected Required Annual Statutory Contributions to the Retirement Systems prior to and after the enactment of P.A. 96-889. These projections were made as of June 30, 2010, immediately following the passage of P.A. 96-889, and do not reflect current projections of the Required Annual Statutory Contributions to the Retirement Systems. Table 33A reflects projections of the Required Annual Statutory Contributions to the Retirement Systems based on the Actuarial Valuations of the Retirement Systems as of June 30, 2011, including the revised actuarial assumptions presented in Tables 21 and 22. Actual Required Annual Statutory Contributions to the Retirement Systems will vary from the projected amounts shown in both Table 33 and Table 33A. These projections are forward-looking statements regarding future events and are based on the actuarial assumptions contained in the Statutory Funding Plan as discussed above and assumptions made regarding such future events, including the assumption that all projected contributions to the Retirement Systems are made as required. No assurance can be given that these assumptions will be realized or that actual events will not cause material changes to the data presented in this table.

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TABLE 33 – PROJECTIONS, AS OF THE PASSAGE OF P.A 96-889, OF REQUIRED ANNUAL STATUTORY CONTRIBUTIONS TO THE RETIREMENT SYSTEMS [(1)]

Fiscal Year	Projected Required Annual Statutory Contributions Before P.A. 96-889	Projected Required Annual Statutory Contributions After P.A. 96-889
2011	$4,541	$4,156[(2)]
2012	4,949	4,866
2013	5,412	5,291
2014	5,880	5,719
2015	6,356	6,159
2016	6,649	6,409
2020	7,871	7,527
2025	9,709	9,187
2030	12,043	11,140
2035	16,127	14,225
2040	20,064	16,389
2045	25,139	18,986

Source: Projected Required Annual Statutory Contributions Before P.A. 96-889 from compilation by Deloitte Consulting LLP, Chicago, Illinois made as of April 13, 2010 from information supplied by the Retirement Systems. Projected Required Annual Statutory Contributions After P.A. 96-889 compiled from the annual Actuarial Valuations of the Retirement Systems as of June 30, 2010, as recertified by the Retirement Systems for fiscal year 2011 pursuant to Public Act 96-1511.

(1) In millions of dollars. These projections are forward-looking statements regarding future events. No assurance can be given that actual events will not cause material changes to the data presented in this table. No assurance can be given that the assumptions underlying these projections will reflect those actually experienced by the Retirement Systems. In the event that the Retirement Systems' experience is different than the assumptions underlying these projections, the Required Annual Statutory Contributions may increase or decrease.

(2) Pursuant to Public Act 96-1511, the Retirement Systems recertified the Required Annual Statutory Contribution for fiscal year 2011. Such recertification reduced the fiscal year 2011 Required Annual Statutory Contribution from $4.541 billion to $4.156 billion.

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TABLE 33A - PROJECTED REQUIRED ANNUAL STATUTORY CONTRIBUTIONS TO THE RETIREMENT SYSTEMS[1]

Fiscal Year	Projected Required Annual Statutory Contributions
2011	$4,156
2012	4,868
2013	5,825
2014	6,155
2015	6,494
2016	6,617
2020	7,551
2025	9,020
2030	10,608
2035	12,508
2040	13,709
2045	15,189

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2011. Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal year ended June 30, 2010.

(1) In millions of dollars. These projections are forward-looking statements regarding future events. No assurance can be given that actual events will not cause material changes to the data presented in this table. No assurance can be given that the assumptions underlying these projections will reflect those actually experienced by the Retirement Systems. In the event that the Retirement Systems' experience is different than the assumptions underlying these projections, the Required Annual Statutory Contributions may increase or decrease.

PROJECTION OF FUNDED STATUS

Table 34 provides a projection of the Actuarial Value of Assets, the Actuarial Accrued Liability, the UAAL and the Funded Ratio throughout the life of the Statutory Funding Plan. These projections are forward-looking statements regarding future events and are based on the actuarial assumptions contained in the Statutory Funding Plan and assumptions made regarding such future events, including the assumption that all projected contributions to the Retirement Systems are made as required. No assurance can be given that these assumptions will be realized or that actual events will not cause material changes to the data presented in this table.

TABLE 34 - PROJECTION OF FUTURE FUNDING STATUS[1]

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Accrued Actuarial Liabilities (UAAL)	Funded Ratio
	(a)	(b)	(b-a)	(a/b)
2011	$63,553.05	$146,460.00	$82,906.95	43.4%
2012	65,221.30	153,366.05	88,144.75	42.5%
2013	67,611.32	160,345.82	92,734.50	42.2%
2014	74,001.12	167,363.87	93,362.75	44.2%
2015	80,172.37	174,440.81	94,268.43	46.0%
2016	84,766.45	181,576.79	96,810.34	46.7%
2020	103,714.92	210,473.67	106,758.74	49.3%
2025	130,453.54	246,788.87	116,335.33	52.9%
2030	162,498.72	281,487.65	118,988.93	57.7%
2035	199,817.05	309,556.56	109,739.52	64.5%
2040	242,830.87	325,532.58	82,701.70	74.6%
2045	294,683.11	327,428.71	32,745.59	90.0%

Source: Compiled from the annual Actuarial Valuations of the Retirement Systems as of June 30, 2011.

(1) In millions of dollars.

RECENT REPORTS AND OTHER DEVELOPMENTS REGARDING THE RETIREMENT SYSTEMS

Report of the Pension Modernization Task Force

House Joint Resolution Number 65 of the 96th General Assembly created the Pension Modernization Task Force (the "Task Force"). The Task Force included members of the General Assembly, organized labor, the business community and beneficiaries of the Retirement Systems. The Task Force met between June 18, 2009, and November 9, 2009, and submitted a report on the Retirement Systems to the Governor and General Assembly in November 2009 (the "Final Report"). The findings of the three major subcommittees described below were voted on individually to be included in the Final Report. However, the Final Report in its entirety was not approved by a majority of the members of the Task Force. A decision was made by the Task Force to publish the Final Report as-is, without such approval, and allow readers to review all of the information, including input and opinions put forth by individual members and interest groups. To this end, the Final Report also includes letters and reports from a variety of Task Force members and outside interest groups. Several minority reports were included as appendices. The Final Report, including these letters, reports and appendices, is available at the web site of the Pension Reform Task Force. See "STATE OF ILLINOIS-WEBSITE INDEX." The State makes no representation nor expresses any opinion as to the accuracy of the Final Report, the statements made or the information contained therein, some of which may be conflicting.

The Final Report presents the findings of the three major subcommittees formed by the Task Force: (i) the Subcommittee on Investments, (ii) the Subcommittee on Benefits and (iii) the Subcommittee on Funding. The Subcommittee on Investments voted unanimously to reject a proposal by the State Treasurer to consolidate the management of the five Retirement Systems into a single investment entity. In addition, the Subcommittee on Investments considered whether the State should adopt actuarial assumed rates of return on investments at a level below the 8.0%-8.5% rates in use at the time of the issuance of the Final Report. Although the Subcommittee on Investments did not reach a conclusion on this issue, the Subcommittee found that the rates of return currently employed by the Retirement Systems are higher than those assumed on private sector retirement plans regulated by the Employment Retirement Income Security Act (ERISA) and those used by other states' retirement systems, but noted that the Retirement Systems have historically experienced investment returns comparable to their actuarial assumed rates of return on investments.

Report of the Commission on Government Forecasting and Accountability

The Commission on Government Forecasting and Accountability ("COGFA") prepared a report dated March, 2012, on the financial condition of the Retirement Systems as of June 30, 2011 (the "COGFA Report"). COGFA is a bipartisan and bi-cameral legislative commission whose purpose is to provide the General Assembly with information relevant to the State economy, taxes, and other sources of revenue and debt obligations of the State. Among COGFA's list of specific responsibilities is to make an annual estimate of public pension funding requirements and to prepare pension impact notes. Furthermore, COGFA has a mandate to report to the General Assembly on economic trends in relation to long-range planning and budgeting and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as the same may affect the State. As a result of these responsibilities, COGFA issues several reports on an annual basis, including the COGFA Report, which provides an overview of the financial condition of the Retirement Systems.

The COGFA Report provides significant information on the funded status of the Retirement Systems, historical and projected information with respect to each of the Retirement Systems and an exhaustive history of pension legislation. COGFA does not make findings in the COGFA Report. The COGFA Report is available from COGFA's website listed in the "STATE OF ILLINOIS – WEBSITE INDEX" section herein. The State makes no representations nor expresses any opinion on the COGFA Report.

Resolution of the TRS Board of Trustees

In February 2012, the Executive Director of TRS informed its Board of Trustees that TRS can no longer be confident that the General Assembly will appropriate all of the money to TRS that is required by law. On March 30, 2012, the Board of Trustees of TRS adopted a resolution which stated that, after consideration of information provided by the Executive Director describing the analysis performed by TRS staff and actuaries, the Board no longer has confidence that the State will be able to meet its existing funding obligations to TRS and the Board believes that action must now be taken to ensure the continued solvency and viability of the TRS. The resolution also provided that the Board will only certify future contributions to TRS that are calculated based on generally accepted actuarial principles and standards. The resolution of the Board of Trustees and information prepared by the Executive Director are available at the TRS website listed in the "STATE OF ILLINOIS – Website Index" section herein.

PROPOSED PENSION STABILIZATION LEGISLATION

Retirement Systems Stabilization Recommendations

On April 20, 2012, the Governor proposed a series of changes to the pension funding and benefits affecting the Retirement Systems and their beneficiaries. These changes were proposed after consultation with a working group (the "Pension Working Group"), comprised of members of the Governor's senior management team, two members of the Illinois Senate and two members of the Illinois House of Representatives, that was tasked with formulating proposals to improve the financial condition of the Retirement Systems.

The changes proposed by the Governor include the following changes affecting the funding of the Retirement Systems and the calculation of pension benefits for employees hired prior to January 1, 2011 (sometimes referred to as "Tier 1 Employees") who are members of the Retirement Systems:

- A 3 percentage point increase in the amount that employees are required to contribute towards funding of their retirement benefits;
- Limiting annual cost of living adjustments that are part of the pension benefits to the lesser of 3% or ½ of CPI, with such annual adjustments to be calculated based on simple interest as opposed to compounded interest;
- Providing that beneficiaries will not be entitled to receive such annual cost of living adjustments until the earlier of age 67 or 5 years after retirement; and
- Increasing the retirement age for beneficiaries to 67, with such increase to be phased-in over a period of several years.

Under the proposal, each employee affected by these changes will have an opportunity to accept or not accept such changes. For employees accepting such changes, future salary increases will be included in the calculation of their pension benefits upon retirement and they will be eligible to receive a subsidy as offered by the State in the future towards the cost of State-sponsored retiree health care benefits. For employees that do not accept such changes, future salary increases would not be counted in the calculation of their pension benefits upon retirement and such employees would not receive any future subsidy from the State towards the cost of retiree health care benefits. (For information regarding the changes in pension funding and benefits affecting State employees hired beginning January 1, 2011 (sometimes referred to as "Tier 1 Employees"), see "— 2010 LEGISLATION MODIFYING BENEFIT STRUCTURE" above.)

The changes proposed by the Governor also include the following:

- Requiring school districts, community college districts and State universities to assume the responsibility for paying the employer's portion of the Normal Cost of pension benefits for their employees, with such obligation to be phased in. (For additional information regarding "Normal Cost," see "DETERMINATION OF EMPLOYER CONTRIBUTIONS — *Statutory Funding Plan not in Accordance with GASB 25"* above.)
- Establishing a 30-year funding schedule based on Actuarially Required Contributions that would cause the Funded Ratio to be 100% by 2042. (For additional information about the determination of Actuarially Required Contributions, see "— DETERMINATION OF EMPLOYER CONTRIBUTIONS –*Actuaries and the Actuarial Process*" above.)
- Requiring that "public sector" pension benefits will be available for and provided to only individuals working for a "public sector" employer.

Additional information about these proposed recommendations can be found at www.capitalmarkets.illinois.gov.

Proposed Pension Stabilization Legislation

During the General Assembly's Spring 2012 legislative session and the special legislative session called by the Governor and held on August 17th, several bills were introduced containing pension reforms that are similar to the framework developed by the Pension Working Group and proposed by the Governor on April 20, 2012 (as discussed above). The following bills relating to the reform of the State's Retirement

Systems were voted on and passed in legislative committee and introduced in either the House or the Senate of the General Assembly.

SB 1673, House Amendment 5 – Filed May 29, 2012

As part of the broader framework established by the Pension Working Group and in the Governor's pension reform proposal, SB1673, House Amendment 5 provides certain benefit and plan reforms to TRS, SERS, SURS and GARS. Major provisions of the legislation are outlined below.

- Requires the election of each current Tier 1 employee and retiree to irrevocably elect to either:
    - Accept changes to the cost of living adjustment ("COLA") of the lesser of 3% or ½ of CPI, with such annual adjustments to be calculated based on simple interest as opposed to compounded interest. In addition, the onset of the COLA is delayed until the earlier of age 67 or 5 years after retirement; or
    - Refuse the proposed changes to the COLA and maintain the current COLA .
- Sets a 100% funding target based on the percentage of Tier 1 active and retired employees who agree to such changes. If at least 50% of Tier 1 employees accept the aforementioned changes, the State will move to a 30-year funding schedule based on Actuarially Required Contributions with a funding goal of 100% by 2043. The State contribution will be calculated each year as a level percentage of payroll and determined under the projected unit credit actuarial cost method. If less than 50% of Tier 1 employees choose to accept the changes, the State's required annual contribution will remain under the current Statutory Funding Plan.
- Provides for the transfer of payment of Normal Cost of benefits to employers of TRS and SURS participants at a rate of 1.0% of payroll beginning in Fiscal Year 2014 until full Normal Cost is shifted.
- Establishes a defined benefit cash balance plan for current Tier 2 participants of TRS and SURS who elect to switch to the plan and all new employees hired after July 1, 2013.
- Creates the position of state pension actuary in the Office of the Auditor General to review assumptions and valuations provided by the State's Retirement Systems.
- Removes healthcare as a subject of future collective bargaining for all participants in TRS, SERS, SURS, and GARS.
- Changes composition of the TRS and SURS boards with the Governor's appointees to the TRS Board from six appointees to four and to the SURS' Board from four appointees to two. Additionally, two new trustee positions are created for both the TRS Board and the SURS Board.

All Tier 1 active and retired employees in TRS, SURS, SERS, and GARS that elect to accept the proposed changes to the COLA receive a vested and enforceable contractual right to participate in the State-sponsored retiree health insurance plan. This right extends to qualifying Tier 1 employee and retiree dependents and survivors. Additionally, all future salary increases for employees will count towards the final calculation of pension benefits. Any Tier 1 active or retired employee that chooses not to accept the changes will not be entitled to participate in the retiree health insurance plan and will not have future salary increases counted towards the calculation of pension benefits.

HB 1447 – Filed May 30, 2012

HB 1447 incorporates the framework set forth in SB 1673, House Amendment 5 but applies such benefit and plan reforms to SERS and GARS only.

SB 3168, House Amendment 3 – Filed August 17, 2012

The Governor called a special session of the General Assembly on August 17, 2012 to address reforms affecting the Retirement Systems and their beneficiaries. As part of this special legislative session, SB 3168, House Amendment 3 was filed. This Amendment incorporates the framework set forth in SB1673, House Amendment 5 but applies such benefit and plan reforms to GARS only. In addition, SB3168, House Amendment 3 provides that any person who first becomes a member of the General Assembly on or after the effective date of the bill is not entitled to participate in GARS.

The summaries above of certain terms of SB 1673, HB 1447 and SB 3168 describe the major provisions of the reforms addressed in these bills as currently drafted and are not intended to serve as comprehensive descriptions of such bills. The reader is referred to the General Assembly's website for the full text of these bills and for any subsequent amendments superseding these bills. See "STATE OF ILLINOIS – WEBSITE INDEX." There is no assurance that any of these bills, in its current form or as subsequently amended, will be enacted into law. Other pension related legislation may also be considered by the General Assembly during the current or a future legislative session but there is no assurance whether, or in what form, any such legislation will be enacted into law.

Other Pension Legislation: SB 512 – Filed May 25, 2011

Various bills were introduced in the General Assembly during 2011 that would provide for further reforms to the Retirement Systems. Legislation generally referred to as SB512 would provide for changes in the pension funding and benefits affecting the Retirement Systems and its beneficiaries. In the form currently pending in the Illinois House, SB512 would affect TRS, SERS (excluding State police and State firefighters), SURS (excluding members who have already opted into the SURS self-managed plan) and GARS but JRS would not be included. (SB512 would provide similar changes of funding and benefits for pension funds covering certain employees and beneficiaries of the City of Chicago, the Chicago Board of Education, the Chicago Park District and Cook County.) Among the changes proposed by SB512:

- Members of the affected Retirement Systems would be required to make an election as to which of three retirement plans described below to participate in. The first election would be made generally for periods of service beginning on and after July 1, 2013.

- *Current Defined Benefit Plan*: Tier 1 employees (hired prior to January 1, 2011) would be able to continue under this current plan but would have to provide higher employee contributions. For the first three years, employee contributions would be fixed percentages of salary and thereafter employee contributions would be calculated as the normal cost – which is the true cost of the pension benefit earned in that year – minus the 6% of salary contribution that would be made by the State.

- *Revised Defined Benefit Plan*: Tier 1 employees, Tier 2 employees (hired after January 1, 2011) and employees hired after the effective date of SB512 would be allowed to participate, with benefit levels essentially the same as described "2010 LEGISLATION MODIFYING BENEFIT STRUCTURE" above. Participants would have their annual compensation capped for the purpose of calculating benefits, with the State's contribution calculated as 6% of salary.

- *Self-Managed Plan:* Tier 1 employees, Tier 2 employees and employees hired after the effective date of SB512 would be allowed to participate, with State and employee contributions equal to 6% of salary and with participants able to make additional contributions. Generally, a participant would become vested upon completion of 5 years of service.

This summary of certain terms of SB512 is not intended as a comprehensive description and reference is made to the full text of SB512, which is available at the General Assembly's website. See "STATE OF ILLINOIS – WEBSITE INDEX." There is no assurance that SB512, in its current form or as subsequently amended, will be enacted into law. Other pension related legislation, including legislation implementing the changes described above under "— *Retirement Systems Stabililization Recommendations,*" may also be considered by the General Assembly during the current or a future legislative session but there is no assurance whether, or in what form, any such legislation will be enacted into law.

SEC INQUIRY

The State was contacted in September 2010 by the SEC regarding a non-public inquiry into communications by the State relating to the financial effects of P.A. 96-889 on the Illinois public pensions, including communications relating to the potential savings or reductions in contributions by the State to the Illinois public pensions. The SEC has informed the State that the inquiry should not be construed as an adverse reflection on any entity or individual involved, nor should it be interpreted as an indication by the SEC or its staff that any violation of the federal securities laws has occurred. The SEC has asked for information as part of its inquiry. The State is cooperating fully with the SEC's inquiry and is providing all information requested by the SEC in connection with its inquiry. The State is unable to predict the ultimate outcome of such inquiry. Prior to the SEC inquiry and in response to statements made by the SEC in a recent enforcement action against the State of New Jersey (SEC Rel. No. 9135, August 18, 2010), the State engaged the law firm of Chapman and Cutler LLP, Chicago, Illinois, to assist the State in reviewing the enforcement action against New Jersey, updating certain of the information contained in this Section and drafting the disclosure policies and procedures set forth in the following Subsection. The State subsequently engaged the law firm of Mayer Brown LLP, Chicago, Illinois, to assist the State in continuing to update certain of the information contained in this Section and in implementing the disclosure policies and procedures set forth in the following Subsection.

PENSION DISCLOSURE POLICIES AND PROCEDURES

The State has reviewed, evaluated, and enhanced its pension disclosure process by instituting formal, written policies and procedures. In its written policies and procedures, among other things, the State established a committee within the GOMB consisting of GOMB employees (the "Disclosure Committee") to oversee the pension disclosure process. The GOMB Director of Capital Markets serves as chairperson of the Disclosure Committee, and the general counsel of the GOMB serves as an ex-officio member. The Disclosure Committee has primary responsibility for drafting, editing and updating the State's pension disclosure. Prior to release of the disclosure in an official statement or at the time of an update as mandated in the policies and procedures, the disclosure will be submitted to the Retirement Systems, COGFA, the Office of the Comptroller and the Office of the Attorney General for their review and comment.

In addition, the State has implemented an annual mandatory training program conducted for the Disclosure Committee and the other GOMB employees involved in the disclosure process. The training is intended to ensure compliance with the State's disclosure obligations under the federal securities laws.

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OTHER POST EMPLOYMENT BENEFITS

PLAN DESCRIPTION

The State Employees Group Insurance Act of 1971 ("Group Insurance Act"), as amended, authorizes the State to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all State and university component unit employees become eligible for these other postemployment benefits ("OPEB") if they become annuitants of one of the State sponsored pension plans. The portions of the Group Insurance Act related to OPEB established a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation for employees of the State's component unit. Prior to Fiscal Year 2013, The Department of Healthcare and Family Services and the Department of Central Management Services ("CMS") administer these benefits for annuitants with the assistance of the Retirement Systems. Following the amendment of the Illinois Administrative Procedure Act (P. A. 097-0695) the administrative responsibilities will be transitioned completely to CMS by the end of Fiscal Year 2013.

FUNDING POLICY AND ANNUAL OPEB COST

Prior to Fiscal Year 2013, the State contributed toward the cost of an annuitant's coverage under the basic program of group health, dental, and vision benefits an amount equal to five percent of that cost for each full year of creditable service up to a maximum of one hundred percent for an annuitant with twenty or more years of creditable service. The amount the State contributed was determined from negotiations with the collective bargaining units within the various retirement systems. With the recent amendment of the Illinois Administrative procedure Act, the director of CMS shall set the level of State contribution on an annual basis. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees. However, the appropriated amount has been insufficient in recent years resulting in a backlog of reimbursements to health care providers and retirees, as further discussed in Other General Fund Liabilities section of this Official Statement. GASB Statement No. 45 requires the calculation of the Actual Accrued Liability ("AAL") which is the difference between (i) the actuarial present value of future plan benefits; and (ii) the actuarial present value of future pay-as-you-go cost. The AAL at the end of Fiscal Year 2011 was $33,295 million. The Actuarially Required Contribution ("ARC") is an amount that is actuarially determined in accordance with the requirements so that, if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both the pay-as-you-go cost for each year and the amortized Unfunded AAL over the amortization period of thirty years. The State's lack of funding requirement differs significantly from the Annual OPEB Cost as pay-as-you-go does not conform to the GASB Statement No. 45 accounting principles. The State's Annual OPEB Cost for the current year and related information is included in Tables 35, 35A and 35B

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TABLE 35
NET OTHER POST EMPLOYMENT BENEFITS OBLIGATION FISCAL YEAR 2011[1]
($ IN THOUSANDS)

Actuarially Required Contribution (Net of ARC adjustments)	$ 2,164,233
Plus: Interest on Net OPEB Obligations	174,546
Annual OPEB Cost	2,338,779
Benefits paid during the year	501,214
Increase in Net OPEB Obligations	1,837,565
Net OPEB Obligations at June 30, 2010	3,878,792
Net OPEB Obligations at June 30, 2011	$ 5,716,357

[1]Based on information in the State CAFR.

TABLE 35A
OTHER POST EMPLOYMENT BENEFITS - FISCAL YEARS 2008-2011[1]
($ IN MILLIONS)

	2008	2009	2010	2011
Annual Required Contribution[2]	$1,776	$1,840	$1,937	$2,339
Benefits paid during the year	538	604	532	501
Increase in Net OPEB Obligations	1,238	1,236	1,405	1,838
Net OPEB Obligations Balance	1,238	2,474	3,879	5,716

[1]Illinois State Employment Group Insurance Program GASB No. 45 Actuarial Valuation Report and the State CAFR.

[2] The Annual Required Contribution numbers include interest on Net OPEB Obligations and adjustments to the Annual Required Contributions.

TABLE 35B
OTHER POST EMPLOYMENT BENEFITS UNFUNDED ACTUARIAL ACCURED LIABILITY- FISCAL YEARS 2008-2011[1]
($ IN MILLIONS)

	2008	2009	2010	2011
Unfunded Actuarial Accrued Liability	$23,890	$27,124	$28,596	$33,295

[1]Illinois State Employment Group Insurance Program GASB No. 45 Actuarial Valuation Report and the State CAFR.

LITIGATION

There is no litigation pending, or to the knowledge of the State threatened, in any way questioning the title of the State officials to their respective offices or any 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 filed against the State of Illinois:

Tax Protest Litigation

In the case Bambeneck v. Hynes, No. 09-MR-136 (Champaign County), petitioner seeks leave to file a taxpayer action that would enjoin the disbursement of monies until the State enacts a balanced budget. Petitioner has taken no action since the State objected to the petition in August, 2009.

Fee Protest Litigation

In November 2004, the Circuit Court of Cook County ruled that the imposition of a surcharge on workers' compensation insurance policies coupled with a mechanism to transfer a portion of surcharge proceeds to the State's General Funds pursuant to Public Act 93-32 was unconstitutional. As a result, the court escrowed \$11.5 million of surcharge proceeds pending final disposition of the case. The State appealed the ruling directly to the Illinois Supreme Court. The Court heard argument in May 2005, and in October 2005, released its opinion reversing the lower court's order granting plaintiff summary judgment and remanding the matter to the circuit court for further proceedings. In October 2005, on the State's motion, the trial court released approximately \$1.4 million from escrow to fund Illinois Workers' Compensation Commission ("IWCC") operations through November 2005. The court further agreed to the future release, on a monthly basis upon the State's petition, of amounts sufficient to fund ongoing IWCC operations. Since October 2005, the IWCC has on a regular basis requested and the Circuit Court of Cook County has released monies sufficient to fund the IWCC's on-going operations. As of November 2009, approximately \$22.8 million remained in escrow. In addition, the trial court has allowed certain insurance companies to make surcharge payments into the Protest Fund. As of November 2009, approximately \$58 million in such payments have been deposited into the Protest Fund. The case has been settled. The money in escrow and the protest funds were deposited in a court settlement fund for use by the Illinois Workers' Compensation Commission for capital improvements and to pay possible liabilities to the Rate Adjustment Fund, upon application for and receipt of permission by the Circuit Court of Cook County.

Several other groups have filed similar actions challenging the constitutionality of fee increases and the application of legislatively-mandated transfer mechanisms. In an action brought in Sangamon County in December 2004, a group of trade associations representing depository institutions and mortgage lenders challenged the assessment of fees on and application of certain provisions of the Illinois Finance Act to their industries. In March 2005, a Sangamon County judge issued a preliminary injunction barring further transfers from the funds at issue pending resolution of the matter. In approximately March 2008, the State entered into an agreement to settle the litigation with the plaintiff trade associations. Under the terms of the executed settlement agreement, the State retained approximately \$50.6 million from the funds at issue, as well as the right to periodically access 10% of the balance of those funds through January 2011. The case was dismissed in accordance with the settlement agreement in June 2009.

In May and June 2006, trade associations representing property and casualty insurance and real estate sales interests, respectively, filed similar actions in Sangamon County challenging certain fees and transfers of funds. The Sangamon County Court entered orders preliminarily preventing the State from transferring monies from the funds at issue, pending further consideration of the matters.

In January 2008, in the property and casualty insurance case, the Sangamon County Court denied the plaintiff's motion for summary judgment, holding that the statutory authorization to transfer money from the relevant fund was controlling over an earlier statutory prohibition for such fund transfers. Finally, in the real estate sales' litigation, the State's motion to dismiss remains pending before the Sangamon County Court.

In June 2006, a motorcyclist's organization filed an action in Sangamon County challenging certain fees and transfers of funds. The Sangamon County Court denied the plaintiffs' motion for a temporary restraining order as to all but two funds; plaintiffs had previously sought to enjoin transfers from 39 state funds. In November 2006, the Sangamon County Court granted the State's motion to dismiss the motorcyclists' litigation as to two State funds, and in October 2008, the Sangamon County Court granted the State's motion for summary judgment the motorcyclists' litigation with respect to the final State fund. Following the Sangamon County Court's denial of the motorcyclists' motion to reconsider in January, 2009, the motorcyclists filed an appeal with the Illinois Appellate Court. The appellate court held on May 3, 2010, that the removal of funds was not an unconstitutional taking and that the legislature has the authority to order a transfer of funds. The Supreme Court granted Plaintiffs' Petition for Leave to Appeal on September 28, 2010. The case was argued on March 23, 2011. The Supreme Court affirmed the judgment of the appellate court on October 27, 2011. The Supreme Court issued the mandate in this case on December 2, 2011. A similar case filed in 2005 in Sangamon County by the same motorcyclist's organization was dismissed by agreement after the Supreme Court's ruling.

In early 2005, a Sangamon County Court dismissed a suit similar to those described above filed by an aggregate producers' industry association to challenge an increase in permit fees and the transfer of a portion of the funds generated by the fee increase to the State's General Funds. In May 2005, the Illinois Appellate Court upheld the trial court's dismissal, rejecting the plaintiff's challenges to the fees and transfers. The Illinois Supreme Court subsequently refused the plaintiffs' request for review, letting stand the Appellate Court's order upholding dismissal. The State thereafter obtained release of approximately $1.1 million, which had been held in escrow during the litigation.

Retaliatory Tax Litigation

In May 2005, the Director of Insurance assessed Sun Life Assurance Company of Canada approximately $4 million in additional tax owed pursuant to the so-called "retaliatory" statute (215 ILCS 5/444). Sun Life objected to the assessment and filed an action seeking a declaration that the tax is unconstitutional and in violation (among other reasons) of the Commerce Clause. The company sought and obtained an injunction barring the State from collecting the tax. The State prevailed in both the trial and appellate courts, and on November 29, 2007, the United States ("U.S.") Supreme Court affirmed the trial and appellate courts in all regards, holding that Illinois' insurance retaliatory tax law does not discriminate against non-U.S. insurers. The court further held that federal law, and specifically the McCarran-Ferguson Act, imposes no limits on a state's authority to assess retaliatory taxes on alien insurers. In a separate action, John Hancock Life Insurance Company filed suit in Cook County challenging the State's collection of approximately $7 million in retaliatory tax. On January 2, 2008, the trial court granted summary judgment for the State, holding that the application of the retaliatory tax to this company on these facts did not violate the Illinois Constitution's Uniformity Clause. In August of 2008, Hancock filed an appeal in Illinois Appellate Court. On February 11, 2010, the Illinois Appellate Court affirmed the judgment of the trial court.

RATINGS

The State has received ratings from Moody's Investors Service, Inc. ("Moody's"), Fitch Ratings Inc. ("Fitch") and Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies ("S&P") (collectively referred to as the "Rating Agencies") for its long term General Obligation Bonds (which include the Bonds). As of the date of this Official Statement, the Bonds are rated "A2" with a Stable Outlook by Moody's, "A" with a Stable Outlook from Fitch, and "A" with a Negative Outlook by S&P.

These ratings reflect the view of such organizations, and an explanation of the significance of such ratings may be obtained only from the respective Rating Agencies. As part of the State's application for the ratings, certain information and materials, some of which are not contained herein, have been supplied to the Rating Agencies. The ratings are neither a "market" rating nor a recommendation to buy, sell or hold the Bonds and the ratings and the Bonds should be evaluated independently.

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 as defined below under the heading "CONTINUING DISCLOSURE," the State undertakes no responsibility either 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. If assigned, there is no assurance that any such ratings will be maintained for any given period of time or that they will not be lowered or withdrawn entirely. Any revision or withdrawal of any such ratings may have an adverse effect on the prices at which the Bonds may be resold.

TAX MATTERS

THE BONDS

GENERAL

In the opinion of Mayer Brown LLP ("Bond Counsel"), under existing law, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes assuming the accuracy of the certifications of the State and continuing compliance by the State with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not a preference item for purposes of either individual or corporate federal alternative minimum tax; however, interest on the Bonds is included in "adjusted current earnings" for purposes of calculating the federal alternative minimum tax liability of certain corporations. Bond Counsel is also of the opinion, under existing law, that interest on the Bonds is not exempt from income taxes imposed by the State. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to acquisition, ownership or disposition of, or the accrual or receipt of interest on the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors as to the federal, state and local tax consequences of their acquisition, ownership or disposition of, or the accrual or receipt of interest on the Bonds.

ORIGINAL ISSUE PREMIUM

The Issue Price of each maturity of the Bonds ("Premium Bonds") is greater than the stated amount payable thereon at maturity. The difference between (i) the Issue Price of a Premium Bond and (ii) the stated amount payable at maturity of a Premium Bond with respect to that Premium Bond constitutes original issue premium in the hands of the owner who purchased that Premium Bond in the initial public offering of the Bonds ("Original Issue Premium").

For federal income tax purposes, Original Issue Premium on a Premium Bond must be amortized by an owner on a constant yield basis over the remaining term of a Premium Bond in a manner that takes into account potential call dates and call prices. An owner of a Premium Bond cannot deduct amortized Original Issue Premium relating to that Premium Bond. The amortized original issue premium for a

Premium Bond is treated as a reduction in the tax exempt interest received. As Original Issue Premium is amortized on a Premium Bond, it reduces the owner's basis in the Premium Bond. As a result an owner of a Premium Bond, may realize taxable gain for federal income tax purposes from the sale or other disposition of such a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the Issue Price who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Purchasers of Premium Bonds should consult their own tax advisors regarding the determination and treatment of Original Issue Premium for federal income tax purposes and the state and local tax consequences of owning a Premium Bond.

Sale and Retirement of the Bonds. U.S. Holders of the Bonds will recognize gain or loss on the sale, redemption, retirement or other disposition of such Bonds. Such gain or loss normally will be capital gain or loss. In addition, for taxable years beginning after December 31, 2012, certain non-corporate U.S. Holders will be subject to a 3.8% tax on net gain, in addition to regular tax on net gain. U.S. Holders should consult their tax advisors regarding the applicability of this 3.8% tax.

Reporting and Backup Withholding. Payments of interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the Bonds, are in certain situations required to be reported to the Internal Revenue Service. Backup withholding may also be imposed on such payments to any bondholder who fails to provide certain required information pursuant to Section 6049 of the Code. Such reporting and backup withholding requirements do not affect the excludability of interest on the Bonds from gross income for federal income tax purposes.

CHANGES IN FEDERAL TAX AND STATE LAW

From time to time, there are presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states, that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. As one example, on February 13, 2012, President Obama released his proposed budget for fiscal year 2013, one provision of which, for tax years beginning on or after January 1, 2013, would have the effect of imposing an additional amount of tax on certain "high income" taxpayers based on, among other things, the amount of interest on tax-exempt obligations, such as the Bonds, received by such taxpayers. In addition, other legislative proposals, if enacted into law, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposals might be enacted or whether if enacted such proposals would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Prospective purchasers of the Bonds should consult their own tax advisors regarding any such pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds and Bond Counsel have expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

CERTAIN CONSIDERATIONS FOR ERISA AND OTHER U.S. EMPLOYEE BENEFIT PLANS

Subject to the following discussion, the Bonds may be acquired with assets of pension, profit-sharing or other employee benefit plans, as well as individual retirement accounts, Keogh plans and other plans and retirement arrangements, and any entity deemed to hold "plan assets" of the foregoing (each, a "Plan"). Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and Section 4975 of the Code, prohibit a Plan subject to those provisions (each, a "Benefit Plan Investor") from engaging in certain transactions with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to such Benefit Plan Investor. A violation of these "prohibited transaction" rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of such Benefit Plan Investor. In addition, Title I of ERISA requires fiduciaries of a Benefit Plan Investor subject to ERISA to make investments that are prudent, diversified and in accordance with the governing plan documents. Plans that are U.S. governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA) are not subject to the fiduciary and prohibited transaction provisions of ERISA or Section 4975 of the Code. However, such plans may be subject to similar restrictions under applicable state, local or other law ("Similar Law").

The purchase of the Bonds by or on behalf of a Benefit Plan Investor could give rise to a prohibited transaction if the underwriter or an affiliate of the underwriter is a party in interest or a disqualified person with respect to such Benefit Plan Investor. Certain statutory and administrative exemptions from the prohibited transaction rules could be applicable to the purchase of the Bonds by a Benefit Plan Investor depending on the type and circumstances of the plan fiduciary making the decision to acquire such Bonds and the relationship of the party in interest or disqualified person to the Benefit Plan Investor. Included among these exemptions are: Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain transactions between a Benefit Plan Investor and non-fiduciary service providers to the Benefit Plan Investor; Prohibited Transaction Class Exemption ("PTCE") 96-23, regarding transactions effected by "in-house asset managers;" PTCE 95-60, regarding investments by insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, regarding transactions effected by "qualified professional asset managers." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. There can be no assurance that any of these, or any other exemption, will be available with respect to any particular transaction involving the Bonds, and prospective investors that are Benefit Plan Investors and other Plans should consult with their legal advisors regarding the applicability of any such exemption and other applicable legal requirements.

By acquiring a Bond (or interest therein), each purchaser (and if the purchaser is a Plan, its fiduciary) is deemed to represent and warrant that either (i) it is not acquiring the Bond (or interest therein) with the assets of a Benefit Plan Investor, a U.S. governmental plan or church plan or (ii) the acquisition of the Bond (or interest therein) will not give rise to a nonexempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of Similar Law.

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 the Municipal Securities Rulemaking Board 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 E – 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 E – 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.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving opinion of Bond Counsel, Mayer Brown LLP, Chicago, Illinois. The opinion of Bond Counsel will accompany the delivery of the Bonds and be in substantially the form included in this Official Statement as Appendix C.

FINANCIAL ADVISOR

Peralta Garcia Solutions, LLC ("Peralta"), Chicago, Illinois, has been retained by the State to serve as Financial Advisor with respect to the Bonds. Peralta is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments. Under the terms of its engagement, the Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification of or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

ADDITIONAL INFORMATION

The information contained in this Official Statement is subject to change without notice and no implication may or shall be derived there from 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 to be construed as a contract or agreement between the State and the Underwriters of any of the Bonds.

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

The Director will provide to the Purchaser 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.

MISCELLANEOUS

Additional information regarding the Bonds and this Official Statement is available by contacting the Governor's Office of Management and Budget, 401 South Spring Street, Stratton Building Room 603 Springfield, Springfield, Illinois 62706; telephone: (217) 782-4520.

The State has authorized the distribution of this Official Statement.

STATE OF ILLINOIS

By: /s/ Jerome Stermer
Acting Director, Governor's Office of Management and Budget

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APPENDIX A

CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS

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 sixteenth among all states. Illinois ranks third among all states in total cash receipts from crops, second in feed and grain exports, second in soybean and products exports, fifth in exports of all commodities 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 shows Illinois has a historically higher per capita GDP than the Great Lakes Region and the United States. Table A-2 compares the workforce composition of Illinois to that of the United States as a whole. Table A-3 shows the distribution of Illinois non-agricultural employment by industry sector.

Table A-1
PER CAPITA REAL GDP (chained 2005 dollars)

	2007	2008	2009	2010	2011
United States	$ 43,633	$ 43,079	$ 41,640	$ 42,346	$ 42,070
Illinois	46,593	45,970	44,565	45,258	45,231
Great Lakes Region	40,617	39,786	38,258	39,175	38,722

Source: U.S. Department of Commerce, Bureau of Economic Analysis, August 2012.

Table A-2
PAYROLL JOBS BY INDUSTRY, SEASONALLY ADJUSTED – June 2012
(Thousands)

Industry Employment Sector	Illinois	% of Total	U.S.	% of Total
Financial Activities	364	6.4%	7,697	5.8%
Manufacturing	580	10.2%	11,860	9.0%
Trade, Transportation and Utilities	1140	20.0%	25,239	19.1%
Leisure and Hospitality	523	9.2%	13,503	10.2%
Education and Health Services	851	15.0%	20,110	15.2%
Mining, Logging, Information and Other Services	356	6.3%	8825	6.7%
Government	842	14.8%	22,004	16.6%
Professional and Business Services	846	14.9%	17,672	13.3%
Construction	190	3.3%	5,564	4.2%
Total	**5,691**	**100.0%**	**132,474**	**100.0%**

Source: U.S. Department of Labor, Bureau of Labor Statistics, August 2012.

Table A-3
NON-AGRICULTURAL PAYROLL – June 2012
(Thousands)

Industry Employment Sector	2008	2009	2010	2011	2012
Total Non-Agricultural Employment	5,994	5,806	5,588	5,651	5,694
Financial Activities	397	381	364	364	364
Manufacturing	671	621	554	569	597
Trade, Transportation and Utilities	1,219	1,172	1,120	1,135	1,133
Leisure and Hospitality	534	524	513	518	531
Educational and Health Services	791	812	823	844	853
Mining, Logging, Information & Other Services	388	381	369	360	351
Government	854	857	857	842	853
Professional and Business Services	873	822	786	820	853
Construction	266	236	203	199	185

Source: U.S. Department of Labor, Bureau of Labor Statistics, August 2012.

Agriculture

Illinois ranks prominently among states for agricultural activity and exports. Tables A-4 and A-5 summarize key agricultural production statistics including rank among all states for the years 2006 to 2010.

Table A-4
ILLINOIS CASH RECEIPTS FROM CROPS AND LIVESTOCK
($ in Millions)

	2006	2007	2008	2009	2010	2010 Rank
Crops	$7,232	$10,662	$13,077	$13,065	$12,589	3
Livestock	1,825	2,112	2,121	1,849	2,268	25
Total	**$9,057**	**$12,773**	**$15,197**	**$14,914**	**$14,857**	**6**

Source: U.S. Department of Agriculture-Economic Research Service, August 2012.

Table A-5
AGRICULTURAL EXPORTS
Federal Fiscal Year 2010
($ in Millions)

Agricultural Exports	U.S. Total	Illinois Share	% of U.S.	Rank
All Commodities	108,664	5,786	5.3%	5
Feed Grain and Products	11,912	1,708	14.3%	2
Soybeans and Products	22,086	3,092	14.0%	2

Source: U.S. Department of Agriculture-Economic Research Service, August 2012.

Contract Construction

Contracts for future construction in Illinois averaged $17.3 billion annually during the period 2007 through 2011 and totaled almost $12 billion in 2011. During the period 2007 through 2011, building permits issued for residential construction averaged 20,175 annually, with an average annual valuation of $3.5 billion. Table A-6 presents annual data on contracts for future construction and residential building activity.

Table A-6
CONTRACTS FOR FUTURE ILLINOIS CONSTRUCTION AND RESIDENTIAL BUILDING ACTIVITY
(Valuations in $ Millions)

	Future Contracts for Residential, Non-residential and Non-building Construction[1]	Residential Building Activity (Privately-Owned Housing Units)[2]	
Year	Valuation	Number of Permits	Valuation
2007	20,876	43,020	6,936
2008	24,457	22,528	3,783
2009	14,724	10,859	2,100
2010	14,338	12,318	2,412
2011	11,966	12,151	2,217

Sources: [1]Department of Commerce and Economic Opportunity.
[2]U.S. Census Bureau, Housing Units Authorized by Building Permits, August 2012.

Personal Income

Per capita income in Illinois is greater than the average in both the United States and the Great Lakes Region. Table A-7 presents personal income data, and Table A-8 presents per capita income comparisons.

Table A-7
PERSONAL INCOME
($ in Billions)

	2007	2008	2009	2010	2011
Illinois	533	555	525	540	568
United States	11,912	12,460	11,930	12,373	12,981

Source: U.S. Department of Labor, Bureau of Labor Statistics, August 2012.

Table A-8

PER CAPITA PERSONAL INCOME

	2007	2008	2009	2010	2011	2011 Rank
Illinois	41,950	43,498	41,058	42,057	44,140	14
United States	39,506	40,947	38,846	39,945	41,663	--
Ten Most Populous States:*						
New York	47,852	49,369	46,699	48,450	50,545	1
California	43,211	43,993	41,353	42,578	44,481	2
Illinois	41,950	43,498	41,058	42,057	44,140	**3**
Pennsylvania	38,927	40,671	39,420	40,599	42,478	4
Texas	37,098	39,704	36,458	37,706	39,593	5
Florida	39,256	39,958	37,387	38,222	39,563	6
Ohio	35,183	36,392	35,145	36,180	37,791	7
Michigan	34,419	35,282	33,514	34,691	36,533	8
North Carolina	34,761	35,740	34,108	34,977	36,164	9
Georgia	35,369	35,863	34,081	34,800	36,104	10
Great Lakes States:						
Illinois	41,950	43,498	41,058	42,057	44,140	**1**
Wisconsin	36,831	38,151	36,927	38,177	40,073	2
Ohio	35,183	36,392	35,145	36,180	37,791	3
Indiana	33,645	34,890	33,363	34,042	35,550	4
Michigan	34,419	35,282	33,514	34,691	36,533	5

*United States Census Bureau, 2010 Census, August 2012.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, August 2012.

Employment

Table A-9

NUMBER OF UNEMPLOYED

	2008	2009	2010	2011	2012*
United States	8,924,000	15,142,000	14,876,000	12,613,000	12,271
Illinois	433,700	674,692	620,983	627,586	619,979
Bloomington-Normal MSA	4,573	6,495	7,201	6,320	5,627
Champaign-Urbana MSA	6,929	9,987	11,038	9,400	8,172
Chicago PMSA	303,175	487,453	496,036	465,543	413,529
Danville-MSA	2,971	4,201	4,547	3,617	3,123
Davenport-Moline-Rock Island MSA	10,772	15,884	17,127	14,846	13,142
Decatur MSA	3,825	6,166	6,502	5,406	5,132
Kankakee MSA	4,803	6,746	7,511	6,342	5,571
Peoria-Pekin MSA	11,296	20,850	20,812	16,483	14,024
Rockford MSA	15,347	25,332	26,830	20,149	17,335
Springfield MSA	6,568	8,390	9,433	8,699	7,655

*Data as of May 2012.
Source: United States Department of Labor, Bureau of Labor Statistics Data, August 2012.

Table A-10
UNEMPLOYED RATE (%)

	2008	2009	2010	2011	2012*
United States	5.8	10	9.7	8.2	8.2
Illinois	6.5	10.1	9.8	9.4	9.4
Bloomington-Normal MSA	5.1	7.2	7.5	6.8	6.2
Champaign-Urbana MSA	5.7	8.3	9	7.8	7.1
Chicago PMSA	6.2	10	10.2	9.6	8.5
Danville MSA	8.2	11.5	12.1	9.9	8.9
Davenport-Moline-Rock Island	5.2	8.1	8.4	7.3	6.6
Decatur MSA	7.2	11.4	11.8	9.9	9.6
Kankakee MSA	8.8	12.1	13.1	10.8	10.1
Peoria-Pekin MSA	5.7	10.4	10.2	7.9	6.9
Rockford MSA	9.1	15	15.3	11.9	10.4
Springfield MSA	5.9	7.4	8	7.4	6.7

*Data as of May 2012.
Source: United States Department of Labor, Bureau of Labor Statistics Data, August 2012.
Note: U.S. BLS dropped Quad Cities Region and St. Louis MSA, IL portion and added Danville and Davenport-Moline-Rock Island MSAs.

Population

Illinois is the nation's fifth most populous state. The State's population is approximately 12.8 million according to the U.S. Bureau of the Census for calendar year 2010.

Table A-11
POPULATION
ILLINOIS AND SELECTED METROPOLITAN STATISTICAL AREAS

	1980	1990	2000	2010
Illinois	11,427,409	11,430,602	12,419,293	12,830,632
Chicago CMSA (IL Part)	7,348,874	7,410,858	8,272,768	9,461,105
St. Louis MSA (IL Part)	588,464	588,995	599,845	684,849
Rockford MSA	325,852	329,676	371,236	349,431
Peoria MSA	365,864	339,172	347,387	379,186
Springfield MSA	187,770	189,550	201,437	210,170
Champaign-Urbana MSA	168,392	173,025	179,669	231,891

Source: U.S. Bureau of the Census, Population Division, Annual Estimates of the Population for Metropolitan Areas of Illinois, August 2012.
Note: Population data for 1980 and 1990 were adjusted to reflect Metropolitan Statistical Area definitions.

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APPENDIX B

SUMMARY OF CERTAIN INFORMATION REGARDING THE ILLINOIS PENSION SYSTEMS

Eligibility and Benefit Formulas. The following are summaries of the eligibility and benefit formulas for each of the Retirement Systems:

Teachers' Retirement System ("TRS")

A. Coverage	TRS members include all full-time, part-time, and substitute Illinois public school personnel employed outside the City of Chicago in positions requiring certification by the Illinois State Board of Education. Persons employed in certain State agencies relating to education are also TRS members.
B. Benefit Formula	Tier 1 Employees (hired prior to January 1, 2011) • Based on the member's highest average salary earned during 4 consecutive years of service within the last 10 years of service. • For post-June 1998 service, this average salary is multiplied by 2.2 % for each year of service. • For service earned before July 1998 that is not upgraded to the 2.2% formula, the average salary is multiplied according to the following formula: o 1.67% for each of the first 10 years, plus o 1.90% for each of the second 10 years, plus o 2.10% for each of the third 10 years, plus o 2.30% for each year over 30. • The benefit maximum is 75% of final average salary. Tier 2 Employees (hired on or after January 1, 2011) • Based on the member's highest average salary earned during 8 consecutive years within the last 10 years of service. • The maximum salary for the purpose of calculating benefits is $106,800, adjusted annually by 3% or one-half of CPI (whichever is less). • The same average salary multiplier and benefit maximum as Tier 1 Employees.
C. Retirement Age & Service Requirements	Tier 1 Employees • Age 62 with 5 years of service. • Age 60 with 10 years of service. • Age 55 with 35 years of service. • *Reduced Benefit:* Age 55 with 20 years of service; annuity reduced by 1/2 of 1% for each month under age 60. A member can avoid a discounted annuity if the member makes a one-time contribution of 11.5% for each year under age 60 or under 35 years of service, whichever is less, and the school district contributes 23.5% percent for each year under age 60. Tier 2 Employees • Age 67 with 10 years of service. • *Reduced Benefit:* Age 62, with at least 10 years of service; annuity reduced by 1/2 of 1% for each month under age 67.

D. Surviving Spouse Benefit	Tier 1 Employees • An eligible survivor receives a minimum of 50% of the member's annuity, or 50% of the projected non-reduced benefit if death occurs when the member is actively contributing to TRS. Tier 2 Employees • An eligible survivor receives 66 2/3% of the member's annuity, or 66 2/3% of the projected non-reduced benefit if death occurs when the member is actively contributing to TRS.
E. Refunds	Employee contributions, not including interest or contributions for survivor benefits.

Sources: Website of TRS, http://trs.illinois.gov/; TRS Public Information Summary; TRS Tier I and Tier II Member Guides.

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State Universities Retirement System ("SURS")

A. Coverage	SURS covers all faculty and support staff of Illinois public higher education institutions including universities, colleges, Class I community colleges, and other related agencies.

<table>
<tr><td>B. Benefit Formulas</td><td>
Defined Benefit Plans (Traditional Benefit Plan and Portable Benefit Plan)
Benefits are calculated based on years of service and final rate of earnings ("FRE") using 3 primary calculations for which SURS has developed formula tables—a General Formula, a Money Purchase Formula (not available to participants hired on or after July 1, 2005), and a Minimum Annuity. There is a special formula for police and firefighters.
<u>Tier 1 Employees (hired prior to January 1, 2011)</u>

Based on final rate of earnings ("FRE"), i.e., (a) highest average earnings during 4 consecutive academic years or (b) the average of the last 4 years prior to termination (applicable only to certain employees).
FRE is limited to 20% year-to-year increases in earnings during the FRE period.
Employment termination before July 7, 1997: The benefit maximum under any formula at age 62 or earlier cannot exceed 75% of FRE. The maximum is 76% at age 63, 78% at age 64, and 80% at age 65 or later. A person who began participation after September 14, 1977, is subject to a maximum of 75% of FRE.
Employment terminated on or after July 7, 1997: The benefit maximum under any formula cannot exceed 80% of FRE.

<u>Tier 2 Employees (hired on or after January 1, 2011)</u>

FRE is the highest average rate of earnings during 8 consecutive years within the last 10 years of service.
FRE is limited to 20% increases in earnings during the FRE period. The maximum salary for FRE purposes is $106,800, adjusted annually by 3% or one-half of CPI (whichever is less).
The benefit maximum is 80% of FRE.

<u>Police & Firefighters</u>

For those retiring after 1997 with 20 years of service as a firefighter or police officer, the FRE shall be the annual rate of earnings received by the members on his or her last day, if that is greater than the FRE otherwise applicable.
Special Formula: 2.25% for each of the first 10 years of such service, plus 2.5% for each of the second 10 years, plus 2.75% for each year thereafter.
The benefit maximum is 80% of FRE.

<u>Money Purchase Formula</u>:

The member contributions for retirement benefits accumulated (a) with interest at the Effective Rate of Interest ("ERI"), plus (b) an imputed employer contribution match at $1.40 per dollar of member contribution accumulated with interest at the ERI.
The total of the accumulations in (a) and (b) is converted into an annuity using a life annuity factor that takes into account neither the automatic 50% spousal survivor benefit nor the automatic annual increases.
ERI means the interest rate credited to member contribution accounts for most purposes. Effective beginning with Fiscal Year 2006, ERI for the purpose of determining the money purchase benefit is established annually by the Comptroller.

SURS also provides a defined contribution Self-Managed Plan for certain of its members.
</td></tr>
</table>

C. Retirement Age & Service Requirements	*Defined Benefit Plans* <u>Tier 1 Employees</u> • Age 62, with at least 5 years of service. • Age 60, with at least 8 years of service. • At any age with at least 30 years of service. • *Reduced Benefit:* Age 55, with at least 8 years of service; annuity reduced by 1/2 of by 1% for each month under age 60. • *Police & Firefighters:* Age 50, with at least 25 years of service as a police officer or firefighter covered by SURS; or age 55, with at least 20 years of such service. <u>Tier 2 Employees</u> • Age 67, with at least 10 years of service. • *Reduced Benefit:* Age 62, with at least 10 years of service; annuity reduced by 1/2 of by 1% for each month under age 67. • *Police & Firefighters:* Age 67, with at least 20 years of service as a police officer or firefighter covered by SURS; or age 62, with at least 20 years of such service (reduced benefits). *Self-Managed Plan* Minimum vesting requirements: 5 years of service credit at age 62, 8 years of service credit at age 55, or 30 years of service credit regardless of age.
D. Surviving Spouse Benefit	*Traditional Benefit Plan:* Eligible survivors may receive monthly benefits if the participant had at least 1.5 years of service prior to death. *Portable Benefit Plan*: Survivor benefits are available through a reduction of the retirement annuity. <u>Tier 1 Employees</u> • An eligible survivor receives a minimum of 50% of the member's annuity under the Traditional Benefit Plan. <u>Tier 2 Employees</u> • An eligible survivor receives 66 2/3% of the member's annuity under the Traditional Benefit Plan.
E. Refunds	*Traditional Benefit Plan:* Employee contributions and interest not to exceed 4 1/2%. *Portable Benefit Plan:* Employee contributions and total interest credited, plus for those members with greater than or equal to 5 years of service credit, an equal amount of employer contributions.

Sources: Website of SURS, http://www.surs.org/homepage.surs; SURS Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2010; SURS Member Guides.

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State Employees' Retirement System ("SERS")

A. Coverage	Generally, all persons entering State service become members unless their position is subject to membership in another State-supported system. Employees appointed by the Governor and requiring confirmation by the Illinois Senate may elect membership.
B. Benefit Formula	Tier 1 Employees (hired prior to January 1, 2011): *Regular Formula* • Based on final average compensation ("FAC"), i.e., the highest average compensation earned during 4 consecutive years of service within the last 10 years of service. • Formula: 1.67% for each year of Social Security-covered service and 2.2% for each year of noncovered service. • The benefit maximum is 75% of FAC. *Alternative Formula (e.g., various state-level police, investigators, firefighters, etc.)* • FAC is the greater of (a) the average of the last 4 years of service or (b) the final rate of pay (not to exceed 115% of the average monthly compensation received in the last 2 years of service) or (c) for members in service before January 1, 1998, the highest average earned during 4 consecutive years of service within the last 10 years of service. Formula: 2.5% for each year of covered service and 3.0% for each year of noncovered service. • The benefit maximum is 80% of FAC. Tier 2 Employees (hired on or after January 1, 2011) *Regular Formula* • FAC is the highest average compensation earned during 8 consecutive years of service within the last 10 years of service. • The maximum salary for FAC purposes is $106,800, adjusted annually by 3% or one-half of CPI (whichever is less). • The benefit formula and maximum remain the same as for Tier 1 employees. *Alternative Formula* • Eligibility limited to State police, firefighters, and security employees with the Departments of Corrections and Juvenile Justice. • FAC is the same for as the FAC for Regular Formula Tier 2 employees. • The benefit formula and maximum remain the same as for Tier 1 employees eligible for the Alternative Formula.
C. Retirement Age & Service Requirements	Tier 1 Employees • Age 60 with 8 years of service. • When an employee's age and service equal 85 years. • *Reduced Benefit:* Between ages 55-60 with 25-30 years of service; annuity reduced by 1/2 of 1% for each month under age 60. • *Alternative Formula:* Age 50 with at least 25 years of eligible service, or at age 55 with at least 20 years of eligible service. Tier 2 Employees • Age 67, with 10 years of service. • *Reduced Benefit:* Between ages 62-67 with 10 years of service; annuity reduced by 1/2 of 1% for each month under age 67. • *Alternative Formula:* Age 60 with 20 years of eligible service.
D. Surviving Spouse Benefit	Survivor benefits vary greatly, depending on amount of earned pension benefit, time of death, age of the surviving spouse, and whether the spouse supports dependent or disabled children.
E. Refunds	Employee contributions without interest.

Source: Website of SERS, http://www.state.il.us/srs/SERS/Home_sers.htm; SERS Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2010.

Judges' Retirement System ("JRS")

A. Coverage	The Judges' Retirement System covers all persons elected or appointed judges or associate judges and, under certain conditions, the Administrative Director of the Illinois courts.
B. Benefit Formula	Tier 1 Employees (hired prior to January 1, 2011) • Based on the member's final rate of salary, or, for any member terminating service after July 14, 1995, on the highest salary received as a judge for at least 4 consecutive years, whichever is greater, after 20 years of service. • Formula: o 3.5% for the first 10 years of service. o 5.0% for each year after 10 years. • The benefit maximum is 85% of final average salary. Tier 2 Employees (hired on or after January 1, 2011) • Based on the member's final average salary, i.e., the highest average salary earned during 8 consecutive years within the last 10 years of service. • The maximum salary for the purpose of calculating benefits is $106,800, adjusted annually by 3% or the annual change in CPI (whichever is less). • Formula: 3% of the member's final average salary for each year of service. • The benefit maximum is 60% of the member's final average salary.
C. Retirement Age & Service Requirements	Tier 1 Employees • At age 55 with 26 years of service. • At age 60 with 10 years of service. • At age 62 with 6 years of service. • *Reduced Benefit:* Age 55 with 10 years of service; annuity reduced by 1/2 of 1% for each month under age 60. However, for a member who retires on or after December 10, 1999, the percentage reduction in the annuity shall be reduced by 5/12 of 1% for every month of service in excess of 20 years. Tier 2 Employees • Age 67 with 8 years of service • *Reduced Benefit:* Age 62, with at least 8 years of service; annuity reduced by 1/2 of 1% for each month under age 62.
D. Surviving Spouse Benefit	Tier 1 Employees • *Death in Service:* 7.5% of salary or 66 2/3% of earned retirement annuity, whichever is greater. • *Death in Retirement:* 66 2/3% of earned retirement annuity. Tier 2 Employees • An eligible survivor receives 66 2/3% of the member's annuity.
E. Refunds	Employee contributions without interest.

Source: Website of JRS, http://www.state.il.us/srs/Judges/Home_jrs.htm; JRS Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2010.

General Assembly Retirement System ("GARS")

<table>
<tr><td>A. Coverage</td><td>GARS covers members of the General Assembly of the State and persons elected to the offices of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller and Attorney General for the period of service in such offices. Any person who has served 10 or more years as Clerk or Assistant Clerk of the House of Representatives, Secretary or Assistant Secretary of the Senate or any combination thereof, may elect to become a participant.</td></tr>
<tr><td>B. Benefit Formula</td><td><u>Tier 1 Employees (hired prior to January 1, 2011)</u>
Based on the member's final rate of salary.
Formula:
3.0% for the first 4 years of service.
3.5% for the next 2 years of service.
4.0% for the next 2 years of service.
4.5% for the next 4 years of service.
5.0% for each year after 12 years.
The benefit maximum is 85% of final salary.
<u>Tier 2 Employees (hired on or after January 1, 2011)</u>
Based on the member's final average salary, i.e., the highest average salary earned during 8 consecutive years within the last 10 years of service.
The maximum salary for the purpose of calculating benefits is $106,800, adjusted annually by 3% or the annual change in CPI (whichever is less).
Formula: 3% of the member's final average salary for each year of service.
The benefit maximum is 60% of the member's final average salary.</td></tr>
<tr><td>C. Retirement Age & Service Requirements</td><td><u>Tier 1 Employees</u>
Age 55 with 8 years of service.
Age 62 with 4 years of service.
<u>Tier 2 Employees</u>
Age 67 with 8 years of service
Reduced Benefit: Age 62, with at least 8 years of service; annuity reduced by 1/2 of 1% for each month under age 67.</td></tr>
<tr><td>D. Surviving Spouse Benefit</td><td><u>Tier 1 Employees</u>
Survivor benefits vary depending on amount of earned pension benefit, time of death, and whether dependent or disabled children are being supported. In most cases, an eligible survivor receives a 66 2/3% of the member's annuity.
<u>Tier 2 Employees</u>
An eligible survivor receives 66 2/3% of the member's annuity.</td></tr>
<tr><td>E. Refunds</td><td>Employee contributions without interest.</td></tr>
</table>

Sources: Website of GARS, http://www.state.il.us/srs/gars/home_gars.htm; GARS Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2010.

APPENDIX C

FORM OF APPROVING OPINION OF BOND COUNSEL

SERIES OF SEPTEMBER 2012 BONDS

[TO BE DATED CLOSING DATE]

State of Illinois
Springfield, Illinois

Re: $50,000,000 State of Illinois General Obligation Bonds,
Series of September 2012

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the State of Illinois (the "State") of its $50,000,000 General Obligation Bonds, Series of September 2012 (the "Bonds"). The Bonds are being issued pursuant to the provisions of Section 9(b) of Article IX of the Illinois Constitution of 1970, the General Obligation Bond Act, 20 Illinois Compiled Statutes 330/1 *et. seq.*, and a Bond Sale Order dated August 31, 2012 (the "Bond Sale Order").

The Bonds are dated the date hereof and mature on September 1 of the years, in the amounts and bear interest at the rates per annum as follows:

Maturity (September 1)	Principal Amount	Interest Rate
2013	$5,000,000	3.00%
2014	5,000,000	3.00%
2015	5,000,000	4.00%
2016	5,000,000	4.00%
2017	5,000,000	4.00%
2018	5,000,000	4.00%
2019	5,000,000	4.00%
2020	5,000,000	4.00%
2021	5,000,000	4.00%
2022	5,000,000	4.00%

The Bonds are not subject to optional or mandatory sinking fund redemption prior to maturity.

In our capacity as bond counsel, we have examined a certified record of such proceedings of the State authorizing the issuance, sale and delivery of the Bonds and such other matters of fact and law as we have deemed necessary to render this opinion (collectively, the "Proceedings") and have also relied upon certifications of officials of the State and certain other parties (the "Certifications") with respect to certain matters solely within their knowledge relating to the facilities financed with the Bonds, the application of proceeds of the Bonds and certain other matters pertinent to the status of the Bonds. As to questions of fact material to our opinion, we have relied upon the Proceedings and the Certifications without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Proceedings show lawful authority for the issuance of the Bonds under the laws of the State of Illinois now in force.

2. The form of the Bonds prescribed for said issue is in due form of law.

3. Pursuant to the Proceedings, the Bonds are valid and binding general obligations of the State.

4. Interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes assuming the accuracy of the Certifications and the continued compliance by the State with the requirements of the Internal Revenue Code of 1986, as amended. Failure to comply with such requirements could cause interest on the Bonds to be includable in gross income retroactively to the date of issuance of the Bonds.

5. Interest on the Bonds is not a preference item for purposes of either individual or corporate federal alternative minimum tax; however, interest on the Bonds is included in the "adjusted current earnings" for purposes of calculating the federal alternative minimum tax liability of certain corporations.

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

7. Other than the opinions set forth in paragraphs 4, 5 and 6 above, we express no opinion regarding any other federal or state tax consequences relating to acquisition, ownership or disposition of, or the accrual or receipt of interest on the Bonds.

The rights of the owners of the Bonds and the enforceability of provisions of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. Enforcement of provisions of the Bonds by any equitable or similar remedy is subject to general principles of law or equity governing such a remedy, including the exercise of judicial discretion whether to grant any particular form of relief.

This opinion is based upon laws, regulations, rulings and decisions in effect on the date hereof. We assume no responsibility for updating this opinion to take into account any event, action, interpretation or change of law occurring subsequent to the date hereof that may affect the validity of any of the opinions expressed herein.

Very truly yours,

APPENDIX D

GLOBAL BOOK-ENTRY SYSTEM

General. The Bonds will be available only in book entry form. DTC will act as the initial 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 or more fully-registered bond certificates will be issued for the Bonds of each series and maturity, in the aggregate principal amount thereof, and will be deposited with DTC.

THE STATE, THE BOND REGISTRAR AND THE PURCHASER CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OF OR INTEREST OR REDEMPTION PREMIUM ON THE BONDS, (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE BONDS OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE STATE NOR THE BOND REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS OF DTC, OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST OR REDEMPTION PREMIUM ON THE BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE BOND SALE ORDER; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS.

PORTIONS OF THE INFORMATION BELOW CONCERNING DTC, AND DTC'S BOOK ENTRY SYSTEM ARE BASED ON INFORMATION FURNISHED BY DTC TO THE STATE. NO REPRESENTATION IS MADE HEREIN BY THE STATE, THE BOND REGISTRAR OR THE PURCHASER AS TO THE ACCURACY, COMPLETENESS OR ADEQUACY OF SUCH INFORMATION, OR AS TO THE ABSENCE OF MATERIAL ADVERSE, CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS OFFICIAL STATEMENT.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (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. If, however, the aggregate principal amount of any maturity exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount of such maturity, and an additional certificate will be issued with respect to any remaining principal amount of such maturity.

DTC, the world's largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over

100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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, however, 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 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 DTC 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue 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 MMI 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments 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 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 redemption proceeds, distributions, and dividend payments 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 will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as 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 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-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but neither of the State nor the Bond Registrar takes any responsibility for the accuracy thereof.

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APPENDIX E

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 E 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) through the Electronic Municipal Market Access ("EMMA") system established by the Municipal Securities Rulemaking Board (the "MSRB") 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 specific reference to other documents available to the public on the MSRB's Internet website, 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 through EMMA.

"*Annual Financial Information*" means financial information and operating data of the type contained herein (i) in Tables 2 through 5 under the heading "STATE FINANCIAL INFORMATION", (ii) in Tables 7, 8, 11, 12 and 15 under the heading "INDEBTEDNESS", (iii) in Tables 24 and 25 under the heading "PENSION SYSTEMS" and (iv) in Table 35B under the heading "OTHER POST EMPLOYMENT BENEFITS". Annual Financial Information exclusive of Audited Financial Statements will be provided through EMMA by 330 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 through EMMA 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 through EMMA for purposes of the Rule in a timely manner, not in excess of ten business days after occurrence of an Event (as described below), notice of the occurrence of such Event with respect to the Bonds. The "Events", certain of which may not be applicable to the Bonds, are:

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- 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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material

notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;

- Modifications to rights of security holders, if material;
- Bond calls, if material (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event);
- Tender offers;
- Defeasances;
- Release, substitution or sale of property securing repayment of the securities, if material;
- Rating changes;
- Bankruptcy, insolvency, receivership or similar event of the State (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State);
- The consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- Appointment of a successor or additional trustee or the change of name of a trustee, if material.

CONSEQUENCES OF FAILURE OF THE STATE TO PROVIDE INFORMATION

The State will give timely notice through EMMA 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:

(a) 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;

(b) 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

(c) 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 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 through EMMA 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 an 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 an 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 an 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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