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

In the separate opinions of Chapman and Cutler LLP, Chicago, Illinois, and Burke Burns & Pinelli, Ltd., Chicago, Illinois ("Co-Bond Counsel"), under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Interest on the Bonds is not exempt from present State of Illinois income taxes. See "TAX MATTERS" herein for a more complete discussion.

$1,025,000,000
STATE OF ILLINOIS
General Obligation Bonds,
Series of February 2014

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 February 2014 (the "Bonds"). The Bonds will be issued only as fully registered book-entry bonds in denominations of $5,000 or any integral multiple of that amount. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depositary Trust Company ("DTC"), New York, New York, and held under DTC's global book-entry system. See "Appendix C – GLOBAL BOOK-ENTRY SYSTEM." The Bonds will bear interest at the rates shown on the inside cover of this Official Statement. Interest on the Bonds will be payable February 1 and August 1 of each year, commencing on August 1, 2014.

The Bonds are subject to 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 capital development, school construction and transportation projects, including but not limited to, projects under the Illinois Jobs Now! capital program, 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 by the State and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Chapman and Cutler LLP, Chicago, Illinois, and Burke Burns & Pinelli, Ltd., Chicago, Illinois, Co-Bond Counsel, and certain other conditions. Chapman and Cutler LLP, Chicago, Illinois, will also act as Disclosure Counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Chicago, Illinois. It is expected that beneficial interests in the Bonds will be available for delivery through the facilities of DTC on or about February 13, 2014.

Certain information in the Preliminary Official Statement has been updated in this Official Statement. See "Information Updated from the Preliminary Official Statement" on the inside front cover hereof.

Senior Manager

Citigroup

Co-Senior Managers

BAIRD **George K. Baum & Company** **Fifth Third Securities, Inc.**

Co-Managers

CastleOak Securities, L.P. **Drexel Hamilton, LLC** **Estrada Hinojosa & Company, Inc.**

Sterne, Agee & Leach, Inc. **The Williams Capital Group, L.P.**

Dated: February 6, 2014

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

$1,025,000,000 General Obligation Bonds, Series of February 2014

Due February 1	Principal Amount	Interest Rate	Yield	Price	CUSIP*
2015	$41,000,000	1.00%	0.33%	100.646	452152 US8
2016	41,000,000	3.00%	0.75%	104.384	452152 VU2
2017	20,000,000	3.00%	1.25%	105.080	452152 UT6
2017	21,000,000	4.00%	1.25%	107.984	452152 VV0
2018	41,000,000	4.00%	1.73%	108.665	452152 UU3
2019	20,000,000	4.00%	2.11%	108.866	452152 UV1
2019	21,000,000	5.00%	2.11%	113.558	452152 VN8
2020	5,000,000	4.00%	2.62%	107.576	452152 UW9
2020	36,000,000	5.00%	2.62%	113.066	452152 VP3
2021	5,000,000	4.00%	3.01%	106.179	452152 UX7
2021	36,000,000	5.00%	3.01%	112.421	452152 VQ1
2022	5,000,000	4.00%	3.37%	104.368	452152 UY5
2022	36,000,000	5.00%	3.37%	111.304	452152 VR9
2023	5,000,000	4.00%	3.65%	102.654	452152 UZ2
2023	36,000,000	5.00%	3.65%	110.243	452152 VS7
2024	5,000,000	4.00%	3.81%	101.562	452152 VA6
2024	36,000,000	5.00%	3.81%	109.790	452152 VT5
2025	41,000,000	5.00%	4.04%	107.810**	452152 VB4
2026	41,000,000	5.00%	4.17%	106.710**	452152 VC2
2027	41,000,000	5.00%	4.30%	105.624**	452152 VD0
2028	41,000,000	5.25%	3.82%	106.412***	452152 VE8
2029	10,000,000	4.50%	4.70%	97.866	452152 VF5
2029	31,000,000	5.25%	4.51%	105.886**	452152 VW8
2030	41,000,000	5.25%	4.61%	105.066**	452152 VG3
2031	41,000,000	5.25%	4.70%	104.335**	452152 VH1
2032	41,000,000	5.25%	4.76%	103.850**	452152 VJ7
2033	41,000,000	5.25%	4.80%	103.529**	452152 VK4
2034	41,000,000	5.25%	4.84%	103.209**	452152 VL2

$205,000,000**** 5.00% Term Bond due February 1, 2039, Yield 5.04%, Price 99.433, CUSIP* 452152 VM0

INFORMATION UPDATED FROM THE PRELIMINARY OFFICIAL STATEMENT

The following information has been updated in this Official Statement from the Preliminary Official Statement:

- Public Act 98-0626 changed the date for delivery of the Governor's Proposed Fiscal Year 2015 Budget, which is now scheduled for March 26, 2014, as stated under the caption, "CERTAIN INVESTMENT CONSIDERATIONS—FISCAL YEAR 2015 BUDGET."
- The Retirement Fund CAFR for SURS for the fiscal year ending June 30, 2013 is now available; the statement in the Preliminary Official Statement under the caption, "PENSION SYSTEMS—BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS" that the SURS CAFR has not yet been released, and the reference to the Fiscal Year 2013 for the SURS information in the source footnote to Table 21, have been deleted.
- Footnote 3 in Table 34, Footnote 5 in Table 34A and Footnote 4 in Table 34B have been revised to include information with respect to the methodology used by SURS for projections for Fiscal Years 2014 and 2015.
- The second to last sentence of the second paragraph under "LITIGATION—PENSION REFORM LITIGATION" has been updated to include a reference to a case that was filed on January 28, 2014.

** Priced to the February 1, 2024 call date.
*** Priced to the February 1, 2019 call date.
**** Subject to mandatory redemption.

STATE OF ILLINOIS

$1,025,000,000
State of Illinois
General Obligation Bonds,
Series of February 2014

Pat Quinn
Governor

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

John Sinsheimer
Director of Capital Markets

Jessica Akey
Manager of Capital Markets

PREFACE

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

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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 this Official Statement.

SUMMARY OF TERMS OF THE BONDS

THIS SUMMARY IS SUBJECT IN ALL RESPECTS TO MORE COMPLETE INFORMATION CONTAINED IN THE OFFICIAL STATEMENT TO WHICH THIS SUMMARY IS ATTACHED. THE OFFERING OF THE BONDS TO ANY PERSON IS MADE ONLY BY MEANS OF THE OFFICIAL STATEMENT, WHICH SHOULD BE REVIEWED CAREFULLY IN ITS ENTIRETY. CAPITALIZED TERMS NOT DEFINED IN THIS SUMMARY ARE DEFINED IN THE OFFICIAL STATEMENT.

The Issue	$1,025,000,000 State of Illinois General Obligation Bonds, Series of February 2014 (the "Bonds"). The Bonds will be dated the date of their original issue with delivery anticipated on February 13, 2014. The Bonds mature or become subject to mandatory sinking fund redemption in equal principal amounts on February 1 in each of the years 2015 through 2039.
The Issuer	State of Illinois.
Interest	Payable semi-annually on February 1 and August 1, commencing August 1, 2014. Payment of the installments of interest will be made to the registered owners of the Bonds as shown on the bond register at the close of business on the 15th day of the calendar month next preceding the interest payment date.
Form of Bonds; Denominations; Book-Entry System	The Bonds will be issued as fully registered book-entry bonds in the denomination of $5,000 or any integral multiple of that amount. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be held under DTC's global book-entry system.
Use of Proceeds	The Bonds are being issued to provide funds to finance certain of the State's capital development, school construction and transportation projects, including but not limited to, projects under the Illinois Jobs Now! capital program, 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."

Optional Redemption

The Bonds maturing on or after February 1, 2025, with the exception of Bonds maturing on February 1, 2028, are subject to redemption prior to maturity at the option of the State on any date on or after February 1, 2024, as a whole or in part, and if in part from such maturities and interest rates as may be selected by the State, in integral multiples of $5,000, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption.

The Bonds maturing on February 1, 2028 are subject to redemption prior to maturity at the option of the State on any date on or after February 1, 2019, as a whole or in part, in integral multiples of $5,000, at a redemption price equal to 100% of the Bonds to be redeemed, plus accrued interest to the date of redemption. See "THE OFFERING—REDEMPTION - *OPTIONAL REDEMPTION*."

Mandatory Redemption

The Bonds maturing on February 1, 2039 are subject to mandatory sinking fund redemption prior to maturity, at a redemption price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, as provided in the Official Statement. See "THE OFFERING—REDEMPTION - *MANDATORY REDEMPTION*."

Security for the Bonds

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

Irrevocable and Continuing Appropriation

The Bond Act requires the Governor of the State to include an appropriation in each annual State Budget of moneys in an 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 bonds issued under the Bond Act and to pay and discharge the principal and redemption premium, if any, of bonds falling due during such period.

The Bond Act requires the Illinois General Assembly to make appropriations annually to pay the principal of, interest on and redemption premium, if any, on outstanding bonds issued under the Bond Act.

The Bond Act itself constitutes an irrevocable and continuing appropriation of all amounts necessary to pay the principal of, interest on and redemption premium, if any, on outstanding bonds issued under the Bond Act, and the irrevocable and continuing authority for and direction to the Illinois State Treasurer (the "Treasurer") and the Illinois State Comptroller (the "Comptroller") to make the necessary transfers, as directed by the Governor, out of and disbursements from the revenues and funds of the State. See "THE OFFERING—SECURITY."

General Obligation Bond Retirement and Interest Fund

The Bond Act creates a separate fund in the State Treasury called the "General Obligation Bond Retirement and Interest Fund" (the "GOBRI Fund") to be used for repayment of all bonds issued under the Bond Act. 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 amount of principal of, interest on and redemption premium, if any, on all bonds issued under the Bond Act payable on the next payment date, divided by the number of full calendar months between the date of such 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. Historical fund transfers to GOBRI are further detailed under "INDEBTEDNESS—TRANSFERS TO THE GOBRI FUND FOR PAYMENT OF DEBT SERVICE."

Additional Bonds

The Bond Act authorizes the State to issue and sell direct, general obligations of the State, including the Bonds, for purposes other than refunding, in the currently authorized aggregate principal amount of $48,586,925,743. See "INDEBTEDNESS—GENERAL OBLIGATION BONDS - Table 7 - General Obligation Bonds." The Bond Act further authorizes the issuance of general obligation 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 general obligation bonds. The total amount of general obligation bonds outstanding, as of January 2, 2014, inclusive of the Bonds, is $28,389,219,171.

General obligation bonds may not be issued if in the next State fiscal year after the issuance of such bonds, the amount of debt service on all then-outstanding general obligation bonds (other than general obligation bonds issued to pay pension obligations in 2010 and 2011) exceeds 7% of the aggregate appropriations from the general funds of the State (which consist of the General Revenue Fund, the Common School Fund, the General Revenue Common School Special Account Fund and the Education Assistance Fund) and the Road Fund for the fiscal year immediately prior to the fiscal year of the issuance; however, the Treasurer and Comptroller, acting together, can waive this requirement. It is not necessary to waive this requirement in order to issue the Bonds. See "INTRODUCTION—AUTHORITY FOR ISSUANCE."

See "INDEBTEDNESS—GENERAL OBLIGATION BONDS" for a description of the general obligation bonds authorized, previously issued and outstanding under the Bond Act and prior bond acts.

Tax Treatment of Interest

In the separate opinions of Chapman and Cutler LLP, Chicago, Illinois, and Burke Burns & Pinelli, Ltd., Chicago, Illinois, Co-Bond Counsel, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Interest on the Bonds is not exempt from present State of Illinois income taxes. See "TAX MATTERS" for a more complete discussion.

Ratings

Standard & Poor's Ratings Services has assigned a rating of A- with a Developing Outlook to the Bonds, Moody's Investors Service, Inc. has assigned a rating of A3 with a Negative Outlook to the Bonds and Fitch Ratings Inc. has assigned a rating of A- with a Negative Outlook to the Bonds. See "RATINGS."

Miscellaneous

Additional information regarding the Bonds and this Official Statement is available by contacting the Governor's Office of Management and Budget, 100 West Randolph Street, Suite 15-100, Chicago, Illinois 60601; telephone: (312) 814-7279.

TABLE OF CONTENTS

INDEX TO TABLES

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$1,025,000,000
State of Illinois
General Obligation Bonds
Series of February 2014

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 $1,025,000,000 General Obligation Bonds, Series of February 2014 (the "Bonds"). The Bonds are being issued to fund certain of the State's capital projects, including but not limited to, projects under the Illinois Jobs Now! capital program, 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. See "STATE OF ILLINOIS," "STATE FINANCIAL INFORMATION" and "APPENDIX A - CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS" for sources and information regarding the State.

SECURITY

The Bonds are direct, general obligations of the State ("GO Bonds"), and, pursuant to the Bond Act, the full faith and credit of the State is pledged for the punctual payment of interest on all GO Bonds issued under 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

In the separate opinions of Chapman and Cutler LLP, Chicago, Illinois and Burke Burns & Pinelli, Ltd., Chicago, Illinois (*"Co-Bond Counsel"*), under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Interest on the Bonds is not exempt from present State of Illinois income taxes. See "TAX MATTERS" for a more complete discussion.

AUTHORITY FOR ISSUANCE

The Bond Act authorizes the State to issue and sell GO Bonds, including the Bonds, for purposes other than refunding, in the currently authorized aggregate principal amount of $48,586,925,743. 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 January 2, 2014, inclusive of the Bonds, is $28,389,219,171. 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 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. It is not necessary to waive this requirement in connection with the issuance of the Bonds. 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*.) with 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 or become subject to mandatory sinking fund redemption as shown on the inside cover page of this Official Statement. Interest on the Bonds is payable semiannually on the first days of February and August of each year, beginning on August 1, 2014, at the rates per annum specified on the inside of the front cover of this Official Statement. Payment of the installments of interest will be made to the registered owners of the Bonds as shown on the bond register at the close of business on the 15th day of the calendar month next preceding the interest payment date.

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 C – 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
2015	$ 41,000,000	$ 46,363,750	$ 87,363,750
2016	41,000,000	47,552,500	88,552,500
2017	41,000,000	46,322,500	87,322,500
2018	41,000,000	44,882,500	85,882,500
2019	41,000,000	43,242,500	84,242,500
2020	41,000,000	41,392,500	82,392,500
2021	41,000,000	39,392,500	80,392,500
2022	41,000,000	37,392,500	78,392,500
2023	41,000,000	35,392,500	76,392,500
2024	41,000,000	33,392,500	74,392,500
2025	41,000,000	31,392,500	72,392,500
2026	41,000,000	29,342,500	70,342,500
2027	41,000,000	27,292,500	68,292,500
2028	41,000,000	25,242,500	66,242,500
2029	41,000,000	23,090,000	64,090,000
2030	41,000,000	21,012,500	62,012,500
2031	41,000,000	18,860,000	59,860,000
2032	41,000,000	16,707,500	57,707,500
2033	41,000,000	14,555,000	55,555,000
2034	41,000,000	12,402,500	53,402,500
2035	41,000,000	10,250,000	51,250,000
2036	41,000,000	8,200,000	49,200,000
2037	41,000,000	6,150,000	47,150,000
2038	41,000,000	4,100,000	45,100,000
2039	41,000,000	2,050,000	43,050,000
Total:	$1,025,000,000	$665,973,750	$1,690,973,750

REDEMPTION

OPTIONAL REDEMPTION

The Bonds maturing on or after February 1, 2025, with the exception of Bonds maturing on February 1, 2028, are subject to redemption prior to maturity at the option of the State on any date on or after February 1, 2024, in whole or in part, and if in part from such maturities and interest rates as may be selected by the State (less than all of the Bonds of a single maturity and interest rate to be selected as described under "*REDEMPTION PROCEDURE*" below), in integral multiples of $5,000, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest on the Bonds to be redeemed to the redemption date.

The Bonds maturing on February 1, 2028 are subject to redemption prior to maturity at the option of the State on any date on or after February 1, 2019, in whole or in part, and if in part, selected as described under "*REDEMPTION PROCEDURE*" below, in integral multiples of $5,000, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest on the Bonds to be redeemed to the redemption date.

MANDATORY REDEMPTION

The Bonds maturing on February 1, 2039 (the "Term Bond") are subject to mandatory sinking fund redemption in part and selected as described under "*REDEMPTION PROCEDURE*" below, on February 1 of the years and at a redemption price of par plus accrued interest to the date of redemption in the respective principal amounts shown for such years in the table below.

2039 Term Bond

Year	Principal Amount to be Redeemed
2035	$41,000,000
2036	41,000,000
2037	41,000,000
2038	41,000,000
2039 (maturity)	41,000,000

The mandatory sinking fund payments are required to be made in each designated year prior to maturity of the Term Bond in amounts sufficient to redeem the principal amount of such Bond shown for such years in the above table.

The State may provide for the purchase of all or a portion of the Term Bond that is subject to mandatory redemption, from its lawfully available funds, on or prior to the 60th day preceding any date of mandatory redemption, at a price not in excess of the principal amount of the Term Bond to be so purchased on such mandatory redemption date. Any Term Bond so purchased will be cancelled and credited against the mandatory sinking fund payments due on such mandatory redemption date.

REDEMPTION PROCEDURE

Bonds will be redeemed only in the principal amount of $5,000 and integral multiples thereof. While the Bonds are registered in the Book-Entry Only System and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds of a single maturity and interest rate are to be redeemed prior to maturity, the selection for redemption of such Bonds will be made in accordance with the operational arrangements of DTC or such successor securities depository then in effect. See "APPENDIX C - GLOBAL BOOK-ENTRY SYSTEM."

Whenever any Term Bond is redeemed prior to maturity, the principal amount of such Term Bond so redeemed or cancelled shall be credited against the unsatisfied balance of future sinking fund installments and final maturity amount established with respect to such Term Bonds in such order as shall be directed by the Governor or the Director.

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

Failure to give the notice of redemption required above as to any Bond, or any defect therein as to any Bond, will not affect the validity of the proceedings for the redemption of any other Bond. Any notice given as described above shall be conclusively presumed to have been given whether or not actually received by the appropriate addressee. With respect to an optional redemption of any Bonds, such notice may, at the option of the State, provide that said redemption is conditioned upon the receipt by the Bond Registrar on or prior to the date fixed for redemption of moneys sufficient to pay the applicable redemption price. If such moneys are not so received by the redemption date, such redemption notice will be of no force and effect, the State will not redeem such Bonds, the applicable redemption price, will not be due and payable and the Bond Registrar will give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed. Unless the notice of redemption is made conditional as described above, on or prior to any redemption date, the Treasurer shall provide for deposit with the Bond Registrar of an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date.

When notice of redemption has been given and the redemption price has been deposited with the Bond Registrar as hereinabove provided, the Bonds or portions of Bonds so to be redeemed shall on the date fixed for redemption become due and payable at the redemption price therein specified, and from and after such date, provided that funds are on deposit therefor, such Bonds or portions of Bonds shall cease to bear interest.

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PLAN OF FINANCE

The net proceeds of the sale of the Bonds will be used to provide funds to finance certain of the State's capital development, school construction and transportation projects, including but not limited to, projects under the Illinois Jobs Now! capital program, and to pay costs of financing, including but not limited to, the cost of issuance of the Bonds. See "—APPLICATION OF BOND PROCEEDS" below.

The Bond Act authorizes the State to reallocate unspent proceeds of the Bonds to any of the purposes (other than refunding) and within the amounts authorized by the Bond Act. The State reserves the right to make such reallocations of Bond proceeds from time to time, so long as such reallocations do not adversely affect the tax-exempt status of the Bonds.

APPLICATION OF BOND PROCEEDS

The State estimates that the proceeds of the Bonds will be applied approximately as set forth below.

Sources:	**Amounts**
Principal Amount Issued	$1,025,000,000.00
Net Premium	54,033,920.00
Total Sources	$1,079,033,920.00
Uses:	
Project Costs	$1,074,168,375.48
Underwriters' Discount	4,227,392.82
Cost of Issuance	638,151.70
Total Uses	$1,079,033,920.00

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 to make appropriations annually to pay the principal of, interest on and premium, if any, on outstanding GO Bonds issued under the Bond Act from the GOBRI Fund.

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 established pursuant to Section 5.42 of the State Finance Act, 30 ILCS 105/1 *et. seq*. (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 described above, and if the Governor or his authorized representative notifies the Treasurer and Comptroller of such fact in writing. Moneys deposited into the GOBRI Fund to provide for the payment of short-term certificates issued under the hereinafter described Short Term Borrowing Act ("Short-Term Debt") 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. Historical fund transfers to GOBRI are further detailed under "INDEBTEDNESS—TRANSFERS TO THE GOBRI FUND FOR PAYMENT OF DEBT SERVICE."

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 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.

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 Debt.

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 Executive Branch of the State other than the offices of other constitutionally-elected officials. The other constitutionally elected officials of the Executive Branch 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 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 on 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 was held in November, 2012. Members of the House of Representatives were elected to serve two-year terms, while members of the Senate were elected to serve staggered two-year/four-year terms.

The Judicial Branch is composed of the Supreme Court, the Appellate Courts and the Circuit Courts. Pursuant to Illinois law, judicial elections were held in November, 2012.

Approximately 90% of State employees are covered by collective bargaining agreements. All collective bargaining agreements expired on June 30, 2012. The State is currently operating under the terms of a successor collective bargaining agreement with the American Federation of State, County and Municipal Employees ("AFSCME") (which represents a large majority of those State employees covered by a collective bargaining agreement) with a three-year stated term (through June 30, 2015) that has been negotiated, executed and ratified by the union membership, and expired contracts with other bargaining units. Successor collective bargaining agreements with other bargaining units are under negotiation. All collective bargaining agreements are subject to an appropriation of funds by the General Assembly. No assurances can be given that sufficient appropriations will be approved.

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. See "CERTAIN INVESTMENT CONSIDERATIONS —FISCAL YEAR 2015 BUDGET."

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, as amended (30 ILCS 340/1 *et seq.*) (the "Short Term Borrowing Act") 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"). Jerome Stermer is the current Acting Director. In addition to assisting the Governor in developing the State's annual operating and capital budgets, GOMB, through the Capital Markets Group, 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 D –FORM OF 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. See "—WEBSITE INDEX" below.

WEBSITE INDEX

The following is a list of the websites referenced in this Official Statement. None of the information on these websites is being incorporated by reference into this Official Statement and the links to such websites are being provided only for the convenience of those reading this Official Statement. Except for GOMB's website, GOMB is not responsible for the information within these websites and links to such websites are provided only to be used in conjunction with this Official Statement insofar as the information on such websites relates to statements contained in this Official Statement. Links to the following websites are being provided only with respect to information as it exists on such websites as of the date of this Official Statement. The State takes no responsibility for any information contained on such websites unrelated to the statements made in this Official Statement or for revisions to information on such websites occurring after the date of this Official Statement. State employees or officers may from time to time make statements or post information to such websites that are constitutionally protected political speech. Such statements are not intended to constitute communication to the investor community concerning the securities or the financial condition of the State. 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.

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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://www3.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=3&RecNum=10980	Link to the Governor's Fiscal Year 14 Budget address
State of Illinois	http://www2.illinois.gov/gov/budget/Pages/BudgetBooks.aspx	Link to the Governor's proposed Fiscal Year 14 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/resources/reports/cafr/	Link to CAFR Library
Comptroller, Traditional Budgetary Financial Report	http://www.ioc.state.il.us/index.cfm/departments/research-and-fiscal/research-and-fiscal-information-publications/traditional-budgetary-financial-report/	Link to the Traditional Budgetary Financial Report
General Assembly	www.ilga.gov	Lead portal to the Illinois General Assembly
Auditor General	http://www.auditor.illinois.gov/	Lead portal to the Auditor General
Retirement Systems: TRS SURS SERS JRS GAR	 www.trs.illinois.gov www.surs.com www.state.il.us/srs www.state.il.us/srs/judges/home_jrs.htm www.state.il.us/srs/gars/home_gars.htm	 Lead portal to Teachers' Retirement System Lead portal to State Universities Retirement System Lead portal to State Employees' Retirement System Lead portal to Judges' Retirement System Lead portal to General Assembly Retirement System
College Illinois	http://www.isac.org/about-isac/financial-information.html	Link to the College Illinois actuarial report
Tax Handbook	http://www.ilga.gov/commission/lru/2013taxhandbook.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 COGFA, 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
State Actuary Report	http://www.auditor.illinois.gov/Other-Public-Documents/State-Actuary-Reports.asp	Link to the Auditor General's State Actuary Report
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, unless otherwise noted, each of which runs from July 1 through June 30. Tables 2, 3, 4 and 5, unless otherwise noted, are based on information contained in detailed annual reports or records of the Office of the Comptroller.

The information relating to Fiscal Year 2012 in Table 2 ("General Funds Reconciliation Fiscal Year 2012"), under the caption "—COMPREHENSIVE ANNUAL FINANCIAL REPORT - TABLE 2," under the caption "OTHER GENERAL FUND LIABILITIES" and in related Table 15 ("Section 25 Liabilities – Fiscal Years 2007-2012"), and under the caption "OTHER POST EMPLOYMENT BENEFITS" and in related Table 35 ("Net Other Post Employment Benefits Obligation Fiscal Year 2012"), Table 35A ("Net Other Post Employment Benefits – Fiscal Years 2008-2012"), and Table 35B ("Other Post Employment Benefits Unfunded Actuarial Accrued Liability – Fiscal Years 2008-2011"), was obtained from the Office of the Comptroller based upon the Fiscal Year 2012 Comprehensive Annual Financial Report ("CAFR"). The CAFR has been filed with EMMA and may also be found at the Comptroller's website. See "STATE OF ILLINOIS—WEBSITE INDEX."

Tables 1, 1A and 5 are based on records of GOMB and also include information from reports and 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 deemed to be 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 budget 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 the basis of generally accepted accounting principles ("GAAP"), 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 "COMPREHENSIVE ANNUAL REPORT – TABLE 2," and "Discussion and Analysis of Fiscal Years 2011 through 2014" below.

By statute, the State is required to produce a three-year budget projection, annually, by January 1 of each year. The Three-Year Projection consists of estimates based on current law that are preliminary and subject to change during the budget development process. Parts of Table 1 are derived from the Three-Year Projection for Fiscal Year 2015 through Fiscal Year 2017 (the "Three-Year Projection"), but due to line-item classification differences, the presentation in the Three-Year Projection is different from the presentation of line-item expenditures in Table 1. See also "—THREE YEAR PROJECTION: FY 2015 - FY 2017" below.

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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 Actual Results (June 2013)	Fiscal Year 2013 Actual Results (January 2014)	Fiscal Year 2014 Revised Budget (January 2014)
SOURCES					
State Revenues					
Individual Income Tax	$ 8,511	$ 11,225	$ 15,512	$ 16,538	16,030
Corporate Income Tax	1,360	1,851	2,461	3,177	3,317
Sales Tax	6,308	6,833	7,226	7,355	7,610
Public Utility Taxes	1,089	1,147	995	1,033	1,033
Cigarette Taxes	355	355	354	353	355
Inheritance Tax	243	122	235	293	210
Liquor Gallonage Taxes	159	157	164	165	165
Insurance Tax and Fees	322	317	345	334	350
Corporate Franchise Taxes and Fees	208	207	192	205	203
Other State Sources	732	706	766	768	711
Federal Revenues	5,920	5,386	3,681	4,154	4,178
TOTAL REVENUES	25,207	28,306	31,931	34,375	34,162
Transfers In [1]	2,159	1,857	1,691	1,987	2,223
TOTAL OPERATING SOURCES	**27,366**	**30,163**	**33,622**	**36,362**	**36,385**
USES					
Operating Budget Objectives [2]					
Provide quality education and opportunities for growth	9,663	9,300	8,945	8,632	8,781
Enhance the economic well-being of citizens	176	188	94	84	80
Protect the lives and property of citizens	1,518	1,649	1,533	1,475	1,528
Protect the most vulnerable among us	6,447	5,827	5,404	5,704	5,270
Improve access to and cost effectiveness of healthcare	6,227	6,971	6,845	7,043	7,039
Improve the quality of life for citizens	76	82	68	62	64
Improve the efficiency and fiscal stability of State Government	2,248	1,829	2,558	2,741	2,422
State Pension Contributions [3]	3,466	3,680	4,135	5,107	5,988
Unspent Budgeted Appropriations [4]	(896)	(350)	(374)	(557)	(533)
TOTAL EXPENDITURES [4]	28,925	29,176	29,208	30,291	30,639
Transfers Out [5]					
Statutory Transfers to Other State Funds	2,007	2,399	2,473	2,840	2,878
Debt Service Transfers: Capital Bonds	670	540	453	551	527
Debt Service Transfers: Pension Bonds (2003, 2010, & 2011)	564	1,667	1,607	1,552	1,655
Debt Service Transfers: Medicaid Borrowing	63	189	0	0	0
TOTAL OPERATING USES	**32,229**	**33,971**	**33,741**	**35,234**	**35,700**
EXCESS OPERATING SOURCES OVER/(UNDER) USES	**(4,862)**	**(3,808)**	**(119)**	**1,128**	**685**
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)	(132)	0
Budget Stabilization Fund Repayment	0	0	0	0	0
TOTAL OTHER FINANCIAL SOURCES/(USES)	**2,440**	**5,394**	**(356)**	**(132)**	**0**
BUDGET BASIS SURPLUS/(DEFICIT)[10]	**(2,422)**	**1,586**	**(475)**	**996**	**685**
FUND BALANCE - BEGINNING OF FISCAL YEAR	**(3,673)**	**(6,095)**	**(4,509)**	**(4,984)**	**(3,988)**
FUND BALANCE - END OF FISCAL YEAR	**$ (6,095)**	**$ (4,509)**	**$ (4,984)**	**$ (3,988)**	**(3,303)**

Table 1 - Footnotes are on the page following Table 1A

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 Actual Results (June 2013)	Fiscal Year 2013 Actual Results (January 2014)	Fiscal Year 2014 Revised Budget (January 2014)
CHANGE IN BUDGET BASIS FUND BALANCE					
BUDGET BASIS FUND BALANCE - BEGINNING OF FISCAL YEAR	$ (3,673)	$ (6,095)	$ (4,509)	$ (4,984)	(3,988)
Budget Basis Surplus/(Deficit)	(2,422)	1,586	(475)	996	685
BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR	**(6,095)**	**(4,509)**	**(4,984)**	**(3,988)**	**(3,303)**
CHANGE IN CASH BALANCE					
GENERAL FUNDS CASH BALANCE - BEGINNING OF FISCAL YEAR	280	129	467	40	154
Budget Basis Surplus/(Deficit)[10]	(2,422)	1,586	(475)	996	685
Increase/(Paydown) of Accounts Payable	2,271	(1,248)	48	(882)	(685)
GENERAL FUNDS CASH BALANCE - END OF FISCAL YEAR [6]	129	467	40	154	154
BUDGET STABILIZATION FUND CASH BALANCE - END OF FISCAL YEAR[7]	0	0	276	276	276
TOTAL CASH BALANCE - END OF FISCAL YEAR	**129**	**467**	**316**	**430**	**430**
CHANGE IN ACCOUNTS PAYABLE					
ACCOUNTS PAYABLE - BEGINNING OF FISCAL YEAR	3,953	6,224	4,976	5,024	4,142
Increase/(Paydown) of Accounts Payable due to Surplus/(Deficit) [8]	2,271	(1,248)	48	(882)	(685)
ACCOUNTS PAYABLE - END OF FISCAL YEAR	**6,224**	**4,976**	**5,024**	**4,142**	**3,457**
BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR					
General Funds Cash Balance - End of Fiscal Year	129	467	40	154	154
Less: Accounts Payable - End of Fiscal year	(6,224)	(4,976)	(5,024)	(4,142)	(3,457)
BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR [9]	**$ (6,095)**	**$ (4,509)**	**$ (4,984)**	**$ (3,988)**	**(3,303)**

Table 1A - Footnotes are on following page

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FOOTNOTES – TABLE 1 & 1A

[1] Transfers In consists primarily of State lottery and gaming revenues as well as transfers from the Build Illinois Fund (due to a one time release of $40 million of funds from the Build Illinois Debt Service Fund resulting from the issuance of the Junior Obligation Bonds Series June 2013), the Capital Projects Fund, and various fees and miscellaneous revenues, initially deposited into other State funds, and subsequently transferred to the General Funds, pursuant to statute.

[2] Beginning with the FY 2012 budget, the State has implemented Budgeting for Results, an outcome based system of budgeting that allocates State funds based on program performance. 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, information under Operating Budget Objectives prior to FY 2012 has been presented in the same manner. More information with respect to Budgeting for Results is available on GOMB's website; see "STATE OF ILLINOIS—WEBSITE INDEX."

[3] General Funds pension contributions of $3,466 million for FY 2010 and $3,680 million for FY 2011 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 FY 2010 and $224 million in FY 2011, initially paid from the General Funds to the State's five pension systems 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 FY 2010 and FY 2011. 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 Funds, pursuant to statute, in the following amounts: $139 million in FY 2010 (actual), $63 million in FY 2011 (actual), $230 million (actual) in FY 2012, $150 million (preliminary and unaudited) in FY 2013, and $198 million (revised) in FY 2014. For presentation consistency and comparison purposes, the FY 2010 and FY 2011 financial information in Table 1 reflect 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 equals fiscal year budget appropriations minus unspent appropriations. Unspent Budgeted Appropriations reflect unused spending authority of agencies by the close of the fiscal year and uncashed checks from prior fiscal years.

[5] State GO Bond debt service payments are made through a separate fund in the State treasury called the General Obligation Bond and Retirement Interest (GOBRI) Fund. Monies from the General Funds are transferred monthly into GOBRI in equal increments to provide for the payment of principal and interest on bonds when due. See "THE OFFERING—SECURITY – *State Funding Payments*."

[6] General Funds Cash Balance - End of Fiscal Year equals the General Funds Cash Balance plus/(minus) the Budget Basis Surplus/(Deficit), plus/(minus) the increase/(decrease) of Accounts Payable. 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 Report. 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 30 of that fiscal year. Public Act 97-44 authorized deferring the FY 2011 cash repayment until FY 2012, which occurred by July 15, 2011 consistent with that Act.

[8] A Budget Basis Surplus/(Deficit) has the effect of (decreasing)/increasing outstanding Accounts Payable, after reflecting any change in ending Cash Balance for that fiscal year. 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. Public Act 97-932 permanently extended the lapse spending period to December 31 of each year. Extension of the lapse period allows for the payment of fiscal year bills through the end of December for services incurred prior to the close of the preceding fiscal year ending June 30. However, such incurred liabilities (termed "Section 25 Liabilities", pursuant to statute) are reflected in the audited Comprehensive Annual Financial Report (CAFR) that is prepared on the basis of Generally Accepted Accounting Principles for governments. Historically, Medicaid and group health insurance payments constitute the majority of Section 25 Liabilities, see discussion "OTHER GENERAL FUND LIABILITIES" for significant changes in the State's Finance Act and the implications for future Section 25 liabilities.

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

[10] Fiscal Year 2014 Revised Budget - Budget Basis Surplus/(Deficit) will not reconcile to the amount reported in the Fiscal Year 2014 Three-Year Projection. This is due to $260 million reported in the Three-Year Projection as appropriations not yet enacted that are not included in Table 1. This amount is comprised of $112 million for American Federation of State, County and Municipal Employees (AFSCME) back pay, $40 million for the Department of Corrections, $95 million for Child Care and $13 million for other miscellaneous appropriations. Additionally, approximately $32 million of continuing appropriations for Teachers' Retirement Health Insurance and Community College Health Insurance were included in Table 1 for FY 2014, but were not reflected in the State's Three-Year Projection.

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Table 2
GENERAL FUNDS RECONCILIATION[1]- FISCAL YEAR 2012
($ IN THOUSANDS)

	Cash Basis	Adjustments for Budgetary Basis	Budgetary Basis	Adjustments for GAAP	GAAP Basis
Revenues:					
Income Taxes (net)	$ 18,044,228	$ -	$ 18,044,228	$ (664,489)	$ 17,379,739
Sales Taxes (net)	7,225,573	-	7,225,573	(300,797)	6,924,776
Public Utility Taxes (net)	995,148	-	995,148	(3,242)	991,906
Federal government (net)	3,636,653	-	3,636,653	3,830,571	7,467,224
Other (net)	2,044,784	(98)	2,044,686	2,515,507	4,560,193
Total revenues	31,946,386	(98)	31,946,288	5,377,550	37,323,838
Expenditures:					
Current:					
Health and Social Services	13,036,056	296,533	13,332,589	6,399,748	19,732,337
Education	12,334,055	(246,986)	12,087,069	(25,238)	12,061,831
General Government	1,571,512	83,616	1,655,128	225,969	1,881,097
Employment and Economic Development	184,960	(85,837)	99,123	(29,630)	69,493
Transportation	64,960	(43,621)	21,339	501,799	523,138
Public Protection and Justice	2,058,773	(72,579)	1,986,194	769,990	2,756,184
Environment and Business Regulation	81,757	(13,823)	67,934	61,050	128,984
Debt Service:					
Principal	-	-	-	1,742	1,742
Interest	-	-	-	1,619	1,619
Capital Outlays	9,162	10,097	19,259	(2,769)	16,490
Total expenditures	29,341,235	(72,600)	29,268,635	7,904,280	37,172,915
Excess of revenues over expenditures	2,605,151	72,502	2,677,653	(2,526,730)	150,923
Other sources (uses) of financial resources:					
Transfers-in	7,406,202	(175,178)	7,231,024	(5,597,271)	1,633,753
Transfers-out	(10,440,509)	55,507	(10,385,002)	7,476,590	(2,908,412)
Capital lease financing	-	-	-	1,164	1,164
Net other (uses) of financial resources	(3,034,307)	(119,671)	(3,153,978)	1,880,483	(1,273,495)
Excess of revenues over expenditures and net other (uses) of financial resources	(429,156)	(47,169)	(476,325)	(646,247)	(1,122,572)
Fund balances (deficit), July 1, 2011, as restated	469,168	(4,976,577)	(4,507,409)	(3,502,547)	(8,009,956)
Increase (decrease) for changes in inventories	-	-	-	(451)	(451)
Fund balances (deficit), June 30, 2012	$ 40,012	$ (5,023,746)	$ (4,983,734)	$ (4,149,245)	$ (9,132,979)

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

NOTES TO TABLES 1, 1A AND 2

Table 2, which is presented above, is a General Funds Reconciliation between cash, budgetary and GAAP basis of accounting for FY 2012.

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, or revised 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 which are materially different from GAAP as promulgated by the Government Accounting Standards Board ("GASB"), and reflected in the CAFR of the State. A final copy of the FY 2013 TBFR can be found on the Comptroller'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, incurred by June 30, and paid no later than December 31 following the end of the fiscal year.
  - The CAFR recognizes all expenditures that are incurred and paid by June 30, or are legal liabilities of that fiscal year, even if such amounts exceeds the appropriations for that fiscal year.
  - "Section 25 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 during 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 five State pension systems net of the debt service on the FY 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 and other important disclosures of the pension obligations of the State, 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.

- o The CAFR also includes Medicaid Provider Assessment Program Funds, and certain other funds as more fully described in Footnote 1 therein. See also "Note 1 – Cash/Budget to GAAP Perspective Differences" below.

COMPREHENSIVE ANNUAL FINANCIAL REPORT – TABLE 2

The complete Comprehensive Annual Financial Report for Fiscal Year 2012, prepared in accordance with GAAP, has been filed with EMMA and is incorporated in this Official Statement by reference. Such report is also available upon request from the Comptroller at (217) 782-6000 or from the Comptroller's webpage. See "STATE OF ILLINOIS—WEBSITE INDEX."

This report was prepared by the Comptroller and examined and certified by the State Auditor General. For Fiscal Year 2012, the Auditor General has expressed an unqualified opinion on the Comprehensive Annual Financial Report. The following explanatory notes should be considered in connection with the review of the Comprehensive Annual Financial Report for Fiscal Year 2012, and in connection with review of Table 2 presented above (all amounts are presented in thousands of dollars).

Note 1 – Cash/Budget to GAAP Perspective Differences

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 $4,983,734 equals the June 30, 2012 cash balance of $40,012 less cash lapse period expenditures and transfers-out of $5,023,746. Adjustments from the cash basis of accounting for Fiscal Year 2012 to the budgetary basis include adding Fiscal Year 2012 lapse period spending and subtracting Fiscal Year 2011 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 2012 "lapsing accounts." In addition, interest on late payments through December 31 is included in lapse period transactions as Public Act 97-0732 extended the lapse period to December 31 for Fiscal Year 2012. Lapse period transfers are statutory transfers approved on or prior to June 30, 2012 but not made until after June 30, 2012.

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, Medicaid reimbursements and payments to local school boards for State Board of Education reimbursement programs). Adjustments to income taxes and sales taxes reflect refund liabilities that are not included on a budgetary basis. These amounts are recorded in a contra-revenue account for GAAP basis accounting. There were also classification differences between the budgetary basis and GAAP basis. 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.

DISCUSSION AND ANALYSIS OF FISCAL YEARS 2011 THROUGH 2014

The information below summarizes budgets from Fiscal Year 2011 through the Fiscal Year Enacted 2014 Budget, including 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 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%, near the highest in the nation, but by fiscal year-end had decreased on par with the national unemployment rate to 9.1%. 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 Fiscal Year 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 calendar year 2010 as the State's 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 calendar year. Wages and salaries rose 3.9% in 2011 and reached pre-recession levels in the final quarter of Fiscal Year 2011.

The State's three major sources of 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% 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, temporary increases in State income tax rates. The enhancements, authorized by 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, temporarily 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" below). The tax increase became effective on January 1, 2011; therefore revenues corresponding to the higher tax rates 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. 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 $3,633 million or 18.8% to $22,920 million from Fiscal Year 2010. Individual income taxes totaled $11,225 million in Fiscal Year 2011, an increase of $2,714 million, or 31.9% over Fiscal Year 2010, and corporate income taxes totaled $1,851 million, an increase of $491 million, or 36.1% 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 growth 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 motor fuel 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% 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 due primarily to decreased Medicaid matching dollars deposited into the General Funds associated with a budgetary decision to move certain Medicaid expenditures and reimbursement deposits 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 deposited to that fund.

Total Transfers In decreased by $363 million or 3.8% primarily due to fund sweeps from other state funds executed in Fiscal Year 2010 not authorized in Fiscal Year 2011. In addition, the General Funds received increased statutorily required transfers from the Capital Projects Fund as a result of higher fund balances during its first full year of tax revenues.

Expenditures

Fiscal Year 2011 total expenditures and Transfers Out equaled $33,971 million, which was $1,742 million or 5.4% higher than Fiscal Year 2010. Expenditures from appropriations, excluding pension contributions, increased by $37 million to $25,496 million as the majority of the total spending increase was due to higher Transfers Out. Compared to the prior fiscal year, programmatic funding for State primary and secondary education experienced the largest change as spending decreased by $363 million or 3.8% due to a reduction of General State Aid to school districts provided by the Federal government under the American Recovery and Reinvestment Act of 2009 ("ARRA"). Pension contributions, as in Fiscal Year 2010, were made through the issuance of bonds, meaning 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, excluding Other Sources/(Uses) and Inter-Fund Borrowing/Repayments, totaled $4,795 million, a $1,491 million increase from Fiscal Year 2010. Due to the expiration of the enhanced Medicaid match under ARRA and in order to increase federal revenues, 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 above in "—FISCAL YEAR 2011 (JULY 2010 – JUNE 2011) ACTUAL RESULTS–BUDGET ANALYSIS–REVENUES", to pay outstanding obligations for Fiscal Year 2010. Additionally, Fiscal Year 2011 revenues were used to pay down Fiscal Year 2010 obligations causing certain expenditures incurred in Fiscal Year 2011 to be delayed to the latter part of the fiscal year as done in Fiscal Year 2010. The State 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 tax rates, though effective only for half of the fiscal year, contributed to lowering total Accounts Payable by fiscal year end (June 30, 2011) to $4,976 million. As described below under "—FISCAL YEAR 2012 (JULY 2011 – JUNE 2012) ACTUAL RESULTS—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 receipt and payment of Fiscal Year 2011 obligations.

The CAFR and TBFR for Fiscal Year 2011 are available on the Comptroller's website, See "STATE OF ILLINOIS—WEBSITE INDEX".

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 re-appropriations from the previous fiscal year.

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. An additional $203 million in bond financed appropriations were made 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) – ACTUAL RESULTS

<u>Economic Condition</u>

Illinois faced continuing uncertain economic conditions at the beginning of Fiscal Year 2012 as reflected by the downgrade of the U.S. credit rating by Standard and Poor's in August 2011, and the State unemployment rate remaining at 10.1% from July 2011 through September 2011, according to the U.S. Bureau of Labor Statistics. However, employment conditions improved within the State as the year progressed as unemployment decreased over the second half of Fiscal Year 2012 and ended the Fiscal Year at 9.0%, even as the labor force grew steadily over the same period of time. Personal income, which grew in each of the 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 fiscal year. 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.

<u>Budget Analysis</u>

Revenues

Total Operating Revenues and Transfers In increased by $3,459 million or 11.5% from Fiscal Year 2011 to $33,622 million. Growth in total fiscal year revenues was primarily attributed to higher individual and corporate income tax receipts that increased by $4,287 million (38.2%) and $610 million (33.0.%), respectively, over Fiscal Year 2011. That reflects a full year of taxed 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 July withholding receipts exceeded expectations. Sales tax revenues grew by $393 million or 5.8% 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 $1,705 million or 31.7% from Fiscal Year 2011 to $3,681 million. The decrease was 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 $166 million or 8.9% 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, excluding Inter-Fund Borrowing repayments, decreased by $230 million or 0.7% over Fiscal Year 2011 to $33,741 million reflecting reductions in multiple State agency budgets. Spending reductions were made to nearly all major spending categories, including General State Aid to education, social service programs, and operational, administrative and personnel expenses within State agencies.

Unlike 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 was $4,135 million which was $455 million or 12.4% higher than the previous fiscal year. Total Transfers Out (including repayment of inter-fund borrowing) decreased by $262 million or 5.5% to $4,533 million. Higher 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 were offset by debt service obligations as additional bonds were retired and the State undertook a refunding of certain outstanding GO bonds.

Total spending for Fiscal Year 2012 was $2,721 million below the spending cap that was established as part of the income tax increase under Public Act 96-1496. The State was required to stay below the spending limitation for Fiscal Year 2012 of $36,818 million. If final expenditures were to have exceeded the spending cap, as determined by the Auditor General of the State, the individual and corporate income tax rates would have reverted back to 3% and 4.8%, respectively, the tax rates in effect prior to the rate increases established by Public Act 96-1496. The Fiscal Year 2012 Budget Basis Operating Deficit was $475 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 31, 2012. Extension of the lapse period allows for payment of Fiscal Year 2012 bills through the end of December for liabilities incurred prior to June 30. The Budget Basis accounts payable at the end of Fiscal Year 2012 was $5,024 million.

Reflected in the Other Financial Sources/(Uses) section of Table 1, repayments of $356 million were made to other State funds for Inter-Fund Borrowing made during 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. Though the cash payment was completed in Fiscal Year 2012, the transfer was charged to Fiscal Year 2011 and thus is not presented under Fiscal Year 2012 in Table 1.

As shown in Tables 1 and 1A, the end of year Budget Basis Operating Deficit was $475 million. The deficit was financed through an increase in Accounts Payable and use of Fiscal Year 2011 end Cash Balances.

Fiscal Year 2012 Capital Budget

The total Fiscal Year 2012 Capital Budget was $26,047 million which reflects re-appropriations from the previous fiscal year. 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 reallocated, 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, supported through bond financing, were $14,981 million, which included $12,382 million of GO Bonds and $2,599 million of Build Illinois bonds. Total capital re-appropriations funded out of current revenues were $8,088 million, including total prior federal funding of $733 million.

FISCAL YEAR 2013 (JULY 2012 – JUNE 2013)

ECONOMIC CONDITION

Seasonally adjusted employment in Illinois declined by 28,533 jobs, or 0.5% in Fiscal Year 2013 according to data from the U.S. Bureau of Labor Statistics. That reflected seasonally adjusted unemployment increasing from 9.0% to 9.1% during Fiscal Year 2013. However, Illinois Gross Domestic Product continued to improve with the average annual GDP increasing 2.9% during the fiscal year, according to IHS Global Insight data. Illinois Department of Revenue data indicated that wages and salaries grew 2.7% during Fiscal Year 2013.

BUDGET ANALYSIS

Revenues

Fiscal Year 2013 Total State Operating Revenues and Transfers In total $36,362 million, a $2,740 million or 8.14% increase over Fiscal Year 2012. State revenue sources, including the State's three primary sources (individual income tax, corporate income tax and sales tax), totaled $27,070 million. Individual Income Tax revenues increased $1,026 million to $16,538 million or 6.6% from Fiscal Year 2012. This increase was largely attributed to taxes on capital gains paid by individuals and businesses prior to the federal government sequester and perceived possibility of an increase in federal income tax rates. Receipts reflected 9.5% of total individual income tax revenues being diverted to the Income Tax Refund Fund for payment of individual income tax refunds.

Corporate income tax revenues totaled $3,177 million, a $716 million or 29.1% increase over Fiscal Year 2012, due to economic growth. This amount reflects 13.4% of total corporate income tax revenues being diverted to the Income Tax Refund Fund for payment of corporate income tax refunds. Fiscal Year 2013 sales taxes totaled $7,355 million, an increase of $129 million or 1.8%. Strong motor vehicle and retail sales combined with high motor fuel prices factored into the increased sales tax revenue. All other State sources increased by $100 million primarily due to higher public utility and inheritance tax receipts and offset by lower insurance tax receipts and fees.

Federal revenues, driven primarily by State Medicaid spending and matching federal monies, increased from Fiscal Year 2012 by $473 million, or 12.9% to $4,154 million. Fiscal Year 2012 Medicaid expenditures were paid during the lapse period resulting in increased federal match monies recognized in Fiscal Year 2013. As State revenues are recognized on a cash basis, federally matched monies received for expenditures occurring after June 30 were recorded in the following fiscal year. Transfers In increased by $296 million, or 17.5%, to $1,987 million. This was primarily due to $264 million of Transfers In from the newly created Backlog Payment Fund (Public Act 97-685) created to pay non-Medicaid related outstanding bills and funded by reductions in other statutory transfers.

Expenditures

Total Operating Expenditures and Transfers Out, excluding Inter-Fund Borrowing repayments for Fiscal Year 2013, increased by $1,493 million or 4.4% over Fiscal Year 2012 to $35,234 million, excluding Inter-Fund Borrowing repayments. Fiscal year spending included $603 million in supplemental appropriations passed in February 2013 in Public Act 98-0001, including $550 million for the State group health insurance program initially funded for only the first six months of the fiscal year.

In Fiscal Year 2013, the Governor and the General Assembly enacted reforms to the State Medicaid program to reduce costs and add new revenue sources. The Medicaid program liability in Fiscal Year 2013, absent these reforms, would have increased by approximately $2.7 billion. Total reforms included: $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. Any Medicaid liability not addressed by the above-mentioned reforms will result in increased Section 25 liabilities at the end of the fiscal year.

Pension contributions for Fiscal Year 2013 to the State's five pension systems totaled $5,107 million from the State's General Funds, an increase of $972 million or 23.5%. Contribution to the State pension systems increased between Fiscal Year 2012 and Fiscal Year 2013 reflecting five-year experience reviews of actuarial assumptions, conducted by four of the five systems, as required under State pension funding laws. Per those reviews, adjustments to certain assumptions and increased fiscal year contribution requirements were made.

Transfers Out to other State funds in Fiscal Year 2013 were $4,943 million, or an increase of $410 million or 9.0% over Fiscal Year 2012. This includes additional transfers to the Healthcare Provider Relief Fund of $500 million for payment of the $1 billion in outstanding Medicaid bills, including federal matching dollars. These transfers include $151 million dedicated to the Healthcare Provider Relief Fund to address a portion of the $2.7 billion Medicaid liability mentioned above. Additionally, $100 million in transfers were authorized to the Worker's Compensation Fund designated for employee benefit payments.

The State is required to stay below the fiscal year spending cap established under Public Act 96-1496 of $37,554 million. Based on Fiscal Year 2013 expenditures, State spending was $2,188 million below this cap. If final expenditures were to have exceeded the spending cap, as determined by the Auditor General of the State, the individual and corporate income tax rates would have reverted back to 3% and 4.8%, respectively, the tax rates in effect prior to the rate increases established by Public Act 96-1496.

Cash Flow

The Fiscal Year 2013 Budget did not include any additional non-recurring revenue sources including borrowings and financings to fund the General Funds. The revised budget included appropriations and authorized transfers for the purpose of payment of outstanding State bills. As previously mentioned, $500 million was authorized to be transferred into the Healthcare Provider Relief Fund to pay outstanding

Medicaid bills. The transfer was cycled repeatedly over the course of the fiscal year under the 50% Federal Medical Assistance Percentage match provided to Illinois until $500 million in federal matching monies was achieved. This allowed 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 was dedicated to payment of outstanding non-Medicaid bills. In total, Fiscal Year 2013 budgeted appropriations and transfers of approximately $1.3 billion were dedicated for the payment of outstanding payables in addition to any fiscal year budget surplus.

End of Fiscal Year 2013 results reflect an $996 million surplus of total receipts over total disbursements. The surplus was used to increase General Funds Cash balance to $154 million, with the $882 million balance applied to reduce Accounts Payable (subject to final audit) to approximately $4,142 million.

FISCAL YEAR 2013 CAPITAL BUDGET

The total new appropriations for Fiscal Year 2013 from both current revenues and bond funds was $1,987 million. This included $1,644 million for highway, road, bridge, rail, inland ports and airport construction, as well as $322 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 were $1,968 million. New bond fund appropriations for economic development were $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 $23,156 million. The total bond-financed re-appropriations included in the Fiscal Year 2013 Capital Budget were $14,361 million, which includes GO Bonds in the amount of $11,879 million and Build Illinois Bonds in the amount of $2,482 million. Total capital re-appropriations funded out of current revenues were $8,794 million.

FISCAL YEAR 2014 (JULY 2013 – JUNE 2014) – REVISED BUDGET

Economic Condition

Beginning Fiscal Year 2014, Illinois' unemployment rate was 9.1%, higher than the national unemployment rate of 7.4%, according to U.S. Bureau of Labor Statistics data. However, Illinois' average annual Gross Domestic Product is expected to increase 3.0% during Fiscal Year 2014 over Fiscal Year 2013, according to IHS Global Insight data. Beginning Fiscal Year 2014, total non-farm employment was 0.9% higher than the beginning of Fiscal Year 2013, per Illinois Department of Employment Security data. Total non-farm payroll is projected to continue its gradual average annual growth by increasing 1.2% during Fiscal Year 2014, and average annual non-farm annual wage is projected to increase 2.4% to $55,840, a 10.9% increase over the past five years, according to IHS Global Insight data. Total single-family housing permits are projected to reach 48,240 during Fiscal Year 2014, a 30.9% increase over the 36,850 recorded during Fiscal Year 2013, according to IHS Global Insight data.

Budget Analysis

Revenue estimates reflect projections of the Department of Revenue and GOMB and are revised in January. As such these revenues differ from Joint Resolution of the General Assembly, required by statute. Expenditure Appropriations are as approved by the General Assembly.

Revenues

Total State Operating Revenues and Transfers In from other State funds are estimated to total $36,385 million for the Fiscal Year 2014 Revised Budget, an increase of $23 million or 0.06% from Fiscal Year 2013 results. The State's three largest revenue sources, individual income tax, corporate income tax and State sales tax, are estimated to be $26,957 million, a net decrease of $113 million or 0.4% in Fiscal Year 2014 compared to Fiscal Year 2013. This decrease is attributed to unexpected revenue collections in April 2013, as previously discussed, associated with individual and corporate taxpayers anticipating potential increases in federal income tax rates that would become effective in 2013.

Revised Fiscal Year 2014 corporate income taxes and sales taxes (compared to the Enacted Budget) reflect an increase of $380 million and $262 million, respectively, due to higher than previously expected economic activity.

Federal revenues from Medicaid premium reimbursements are expected to increase $24 million to $4,178 million in Fiscal Year 2014. Inheritance tax revenues are projected to decrease $83 million, or 28.3% over Fiscal Year 2013. A large decrease in receipts was expected in the first quarter of Fiscal Year 2013 as a result of PA 097-0732. This law moved the estate tax collection responsibility from counties to the Treasurer as of July 1, 2012. Upon implementing this change, counties submitted $41.8 million of prior-year estate-tax receipts on hand in July 2012. Excluding this one time receipt, collections are expected to decrease due to higher exemptions established by PA 097-0636. Exemption levels will increase from $3.5 million in 2012 to $4.0 million in 2013 and after. Fiscal Year 2014 Budget Transfers In are projected to be $2,223 million, an increase of $236 million, or 11.9% over Fiscal Year 2013. This is largely due to a $397 million increase in transfers from the Income Tax Refund Fund associated with excess balances in that fund and as provided by statute.

Expenditures

Total State expenditures and Transfers Out, excluding Inter-Fund Borrowing repayments, are estimated to be $35,700 million, an increase of $466 million, or 1.3%, from Fiscal Year 2013. State pension contributions are expected to increase $881 million, or 17.3% to $5,988 million over Fiscal Year 2013. To mitigate the increase of pension and healthcare costs, the Revised Budget reflects reductions to major spending categories, including social service programs, and operational, administrative and personnel expenses within State agencies, totaling $553 million, a 2.9% decrease from Fiscal Year 2013. Transfers Out to other State funds (including debt service) in Fiscal Year 2014 are projected to total $5,060 million, an increase of $117 million or 2.4% from Fiscal Year 2013. This includes a transfer of $601 million to the Healthcare Provider Relief Fund. Using matched federal funds and the Healthcare Provider Relief Fund monies, the Comptroller will be able to pay over $1 billion of Medicaid payments.

Debt Service Transfers for capital bonds are projected to decrease in Fiscal Year 2014 by $24 million to $527 million from the previous fiscal year.

In the State’s Three-Year Projection, Total Expenditures includes an additional $260 million of appropriations not yet enacted. This amount includes $112 million for AFSCME back pay, $40 million for the Department of Corrections, $95 million for Child Care and $13 million for other miscellaneous appropriations. Additionally, approximately $32 million of continuing appropriations for Teachers’ Retirement Health Insurance and Community College Health Insurance were not included in the State’s Three-Year Projection, but are reflected in Table 1 for Fiscal Year 2014.

The State is required to stay below the fiscal year spending cap established under Public Act 96-1496 of $38,305 million for Fiscal Year 2014. 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, the tax rates in effect prior to the rate increases established by Public Act 96-1496. Revised Budget Expenditures, total $37,500 million or $2,605 million below the cap.

Cash Flow

The Fiscal Year 2014 Revised Budget does not include any non-recurring Financial Sources including any cash-flow borrowings or debt financings. Further, the Fiscal Year 2014 Revised Budget does not dedicate any fiscal year resources to other financial uses or repayments for past interim borrowings, including inter-fund borrowing repayments. As mentioned above, $601 million is authorized to be transferred into the Healthcare Provider Relief Fund to pay Medicaid bills. The transfer will be cycled repeatedly over the course of the fiscal year under the 50% Federal Medical Assistance Percentage match provided to Illinois until maximum federal matching monies are received. This will allow for payment of over $1 billion of outstanding State Medicaid bills reducing the State's backlog of payables, classified under Section 25 Liabilities.

PA 97-932 permanently extended the lapse spending period to December 31 of each year. Extension of the lapse period allows for the payment of Fiscal Year 2014 bills through the end of December for services incurred prior to the close of Fiscal Year 2014, ending June 30, 2014. The estimated Budget Basis accounts payable at the end of Fiscal Year 2014 is estimated to be $3,457 million.

The Fiscal Year 2014 Revised Budget projects a $685 million surplus of receipts over disbursements. Any final fiscal year surplus will be used to reduce Accounts Payable.

Fiscal Year 2014 Capital Budget

The total enacted new appropriation for Fiscal Year 2014 from both current revenues and bond funds is $3,424 million. This includes $2,769 million for highway, road, bridge, rail, inland ports and airport construction, as well as $570 million for environmental projects and $13 million for State facilities from current revenues. Collectively, total enacted new appropriations from current revenues sources for Fiscal Year 2014 are $3,280 million, while new bond fund appropriations for aeronautics projects total $71 million, new bond fund appropriations for economic development total $61 million and other new bond fund appropriations total $11 million.

The remainder of the Fiscal Year 2014 Capital Budget contains prior year re-appropriations consisting of both bond-funded and current revenue sources totaling $18,791 million. The total bond-financed re-appropriations included in the Fiscal Year 2014 Capital Budget are $11,222 million, which includes GO Bonds in the amount of $9,275 million and Build Illinois Bonds in the amount of $1,947 million. Total capital re-appropriations funded out of current revenues is $7,569 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 on 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 by June 30, 2010. This transfer was completed 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. Though payment was executed in Fiscal Year 2012 the transfer was charged to Fiscal Year 2011 and thus is not presented under Fiscal Year 2012 in Table 1.

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 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. However, subsequent to this legislation, PA 97-932 permanently extended the lapse period to December 31 of the following fiscal year. This extension will make the publication of unaudited financial statements by December 31 problematic in years in which bills are paid during the end of such lapse period. The State has covenanted in its continuing disclosure undertakings to file the CAFR within 30 days after its availability to GOMB. See "CONTINUING DISCLOSURE" and "APPENDIX D—FORM OF CONTINUING DISCLOSURE UNDERTAKING."

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TABLE 3
CASH RECEIPTS AND DISBURSEMENT[1] - GENERAL FUNDS [2]
FISCAL YEARS 2009-2013
($ IN MILLIONS)

	FY 2009	FY 2010	FY 2011	FY 2012	Preliminary FY 2013
Available Balance, Beginning	**$141**	**$281**	**$130**	**$469**	**$40**
Cash Receipts					
State Revenues					
Income Tax	$10,933	$9,871	$13,076	$17,973	$19,715
Sales Tax	6,773	6,308	6,833	7,226	7,355
Public Utility Tax	1,168	1,089	1,147	995	1,033
Cigarette Tax	350	355	355	354	353
Inheritance Tax	288	243	122	235	293
Liquor Gallonage Tax	158	159	157	164	165
Insurance Tax & Fees	334	322	317	345	334
Corporate Franchise Tax	201	208	207	192	205
Investment Income	81	26	28	21	20
Intergovernmental Transfers	253	244	244	244	244
Other	445	462	434	428	489
Total, State Revenues	$20,984	$19,287	$22,920	$28,177	$30,206
Federal Revenues					
Medicaid & Social Services	$6,567	$5,920	$5,386	$3,682	$4,154
Transfers In					
From Other State Funds[3]	$1,593	$1,884	$2,181	$1,938	$1,968
Total Revenues	**$29,144**	**$27,090**	**$30,487**	**$33,797**	**$36,328**
Short-Term Borrowing	2,400	1,250	1,300	0	0
Tobacco Securitization	-	-	1,250	-	-
Proceeds from Pension Obligation Note Borrowing	-	843	224	-	-
Total Cash Receipts[3]	**$31,544**	**$29,183**	**$33,261**	**$33,797**	**$36,328**
Cash Disbursements					
Expenditures for Appropriations					
Operations	$7,332	$6,381	$7,113	$9,202	$9,889
Awards and Grants	22,035	18,529	18,511	20,063	20,881
Permanent Improvements	5	2	-	5	9
Refunds	15	-	-	12	6
Vouchers Payable Adjustment	(2,392)	(952)	918	87	(117)
Prior Year Adjustments	(14)	(17)	(22)	(88)	(21)
Pension Obligation	-	843	224	-	-
Transfers Out					
Short-Term Borrowing [4]	1,424	2,000	1,322	0	0
Debt Service Funds [5]	1,102	1,313	2,396	2,071	2,103
Other State Funds [3]	1,897	1,235	2,460	2,874	3,464
Total Cash Disbursements	**$31,404**	**$29,334**	**$32,922**	**$34,226**	**$36,214**
Cash Balance, Ending	**$281**	**$130**	**$469**	**$40**	**$154**

[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 2008-2013
($ IN MILLIONS)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Preliminary FY 2013
Available Balance, Beginning	**$421**	**$388**	**$418**	**$554**	**$710**	**$789**
Cash Receipts						
State Revenues						
Motor Vehicle & License Fees	747	772	762	757	756	742
Certificates of Title	85	77	74	76	79	79
Property Sales (City & County)	72	68	76	80	68	66
Miscellaneous	73	124	558	315	169	101
Total, State Revenues	$978	$1,041	$1,471	$1,228	$1,072	$987
Federal Revenues	1,257	1,234	1,276	1,467	1,497	1,428
Transfers In						
Motor Fuel Fund	335	317	300	307	297	290
Other Funds	-	-	-	6	22	0
Total Cash Receipts	**$2,570**	**$2,593**	**$3,047**	**$3,007**	**$2,888**	**$2,705**
Cash Disbursements						
Expenditures for Appropriations	2,312	2,285	2,575	2,403	2,438	2,289
Transfers Out						
Debt Service Funds [2]	258	245	296	392	333	359
Other State Funds	32	35	39	56	39	21
Total Cash Disbursements	**$2,602**	**$2,564**	**$2,911**	**$2,851**	**$2,809**	**$2,669**
Cash Balance, Ending	**$388**	**$418**	**$554**	**$710**	**$789**	**$825**

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

[2] Reflects debt service on GO Bonds.

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TABLE 5

CASH BALANCES BY FUND CATEGORY: FY2004-FY2014[1]
($ IN MILLIONS)

FUND CATEGORY - Fiscal Year	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
General Funds	$ 182	$ 497	$ 590	$ 642	$ 141	$ 280	$ 130	$ 469	$ 40	$ 154	
Highway Funds	522	733	926	747	814	688	805	999	1,111	1,172	
Special State Funds	2,618	2,327	2,433	2,734	2,741	2,574	2,029	2,254	2,918	3,671	
Bond Financed Funds	199	228	533	203	77	68	2,226	1,449	1,460	856	
Debt Service Funds	624	648	626	638	649	654	920	1,308	1,322	1,508	
Revolving Funds	127	91	69	63	63	29	41	41	70	99	
State Trust Funds	1,356	1,619	1,944	2,220	2,520	2,357	1,881	1,989	2,307	2,350	
June 30th amounts (End of Fiscal Year)	**$ 5,628**	**$ 6,142**	**$ 7,122**	**$ 7,247**	**$ 7,005**	**$ 6,650**	**$ 8,032**	**$ 8,509**	**$ 9,228**	**$ 9,810**	

FUND CATEGORY - Year to Date	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
General Funds	$ 346	$ 251	$ 486	$ 429	$ 589	$ 215	$ 150	$ 186	$ 144	$ 138	$ 204
Highway Funds	$ 456	$ 505	$ 711	$ 619	$ 787	$ 629	$ 767	$ 806	$ 976	$ 1,133	$ 1,219
Special State Funds	$ 3,104	$ 2,048	$ 2,280	$ 2,438	$ 2,788	$ 2,558	$ 2,368	$ 2,155	$ 2,508	$ 3,378	$ 3,832
Bond Financed Funds	$ 323	$ 128	$ 63	$ 226	$ 91	$ 19	$ 672	$ 2,126	$ 633	$ 395	$ 1,205
Debt Service Funds	$ 966	$ 460	$ 481	$ 517	$ 519	$ 514	$ 539	$ 821	$ 698	$ 946	$ 935
Revolving Funds	$ 155	$ 116	$ 65	$ 54	$ 44	$ 50	$ 27	$ 68	$ 76	$ 64	$ 71
State Trust Funds	$ 1,490	$ 1,683	$ 1,769	$ 2,130	$ 2,128	$ 2,317	$ 1,995	$ 1,885	$ 1,939	$ 2,505	$ 2,345
December 31st amounts (End of Second Quarter)	**$ 6,839**	**$ 5,191**	**$ 5,855**	**$ 6,413**	**$ 6,946**	**$ 6,303**	**$ 6,518**	**$ 8,047**	**$ 6,975**	**$ 8,558**	**$ 9,812**

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

THREE-YEAR PROJECTION: FY 2015 - FY 2017

GOMB is required, pursuant to Public Act 96-1354, to prepare annually and submit to the General Assembly a three year budget projection to be released on or about January 1 of each year. This Three-Year Projection is intended to provide additional information on the State's economic and fiscal objectives and fiscal policy intentions for the succeeding three fiscal 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 and are available on GOMB's website provided in "STATE OF ILLINOIS—WEBSITE INDEX." The most recent Three-Year Projection was released on December 31, 2013.

The Three-Year Budget Projection for Fiscal Year 2015 - Fiscal Year 2017 indicates the following:

- Revenues decline in the face of the statutory tax rate roll-back scheduled to take effect on December 31, 2014. See "INVESTMENT CONSIDERATIONS—REDUCTION OF INCOME TAX RATES."
- Expenditures are constrained in the face of the revenue declines at a maintenance level (1.46% four-year compound growth rate).
- Backlog of unpaid bills increases when the two conclusions above are factored in.
- To produce a balanced budget, among other potential solutions, one of following will need to take place:
  - Change in tax rates
  - Reduction in expenditures
  - A combination of a change in tax rates <u>*and*</u> reductions in expenditures.

The State can provide no assurances as to how, when or in what form the resolution of this issue will take place.

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, 29th Edition June 2013* published annually since 1985 by the Legislative Research Unit. (See "STATE OF ILLINOIS—WEBSITE INDEX" for this link). The discussion below is 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 (*i.e.*: not including revenues from the federal government and transfers from other State funds). These three taxes, in order of the level of receipts, will be discussed in turn below. Motor fuel taxes, which support some of the GO Bonds, are also discussed below. Note that the rates of the State individual income tax and corporate income tax will decline automatically on December 31, 2014 if no further legislative action is taken. See "CERTAIN INVESTMENT CONSIDERATIONS—REDUCTION OF INCOME TAX RATES."

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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 *"Note 1–Income Tax Refund Fund"* below), IIT is distributed as follows:

- 82.7% goes to the General Revenue Fund.
- 10% goes to the Local Government Distributive Fund through January 31, 2011. From February 1, 2011 through January 31, 2015, 6% (plus 6.86% of corporate income tax proceeds).
- 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. Although the General Assembly has enacted a tax on out-of-state sellers who have offices or other facilities within the State (warehouses and reshipping points included), this tax was declared unconstitutional by the Illinois Supreme Court in October, 2013.

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 the information under "REVENUE BONDS"), 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 Note 2 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 discussion under *"Note 1– Income Tax Refund Fund"* below), the CIT is distributed as follows:

- 82.7% goes to the General Revenue Fund.
- 10% to the Local Government Distributive Fund through January 31, 2011. From February 1, 2011 through January 31, 2015, 6.8% (plus 6% of individual income tax proceeds).
- 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:
  - o 45.6% to the State Construction Account Fund (37%) and the State Road Fund (67%).
  - o 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. Fiscal Year 2013 and Fiscal Year 2014 have a CIT rate of 13.4% and an IIT rate of 9.5%. 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. This resulted in $397 million being returned to the General Revenue Fund in Fiscal Year 2014. 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. Although the Income Tax Refund Fund has a balance of $640 million as of January 17, 2014, there was $8.9 million of unpaid CIT refunds outstanding as of January 2, 2014, due to the processing cycle. In the past, there has been unpaid CIT refunds due to a lack of funds in the Income Tax Refund Fund. 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 businesses 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 its share 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 January 17, 2014, the total Protest Fund balance was $151.8 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 6
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 authorized the issuance of multiple capital and special purpose GO Bonds in the aggregate amount of $31,024,577,443 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 January 2, 2014.

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TABLE 7
GENERAL OBLIGATION BONDS
(As of January 2, 2014)

Authorization Category	Amount Authorized	Amount Issued	Authorized Unissued	Amount Outstanding
Multi-purpose	$30,774,577,443	$22,759,120,176	$8,015,457,267	$9,918,252,675
Special-purpose	250,000,000	246,095,000	3,905,000	0
Refunding Bonds[1]	4,839,025,000	7,868,564,239	1,386,258,504	3,452,766,496
Subtotal	**$35,863,602,443**	**$30,873,779,415**	**$9,405,620,771**	**$13,371,019,171**
Pension Bonds	17,562,348,300	17,166,000,000	396,348,300	13,993,200,000
Total	**$53,425,950,743**	**$48,039,779,415**	**$9,801,969,071**	**$27,364,219,171**
Currently Authorized less Refunding[2]	$48,586,925,743			

[1] 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.

[2] Section 2 of the General Obligation Bond Act (30 ILCS 330/2) states that the aggregate authorized amount of general obligation bonds (excluding authorization for refunding bonds is $49,317,925,743. The difference is attributable to expired authorization for Tobacco bonds and an approximate $19,000,000 miscalculation in the Act with respect to the authorized amount for coal development described in Section 7 of the Act.

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 January 16, 2014, a total of $926.5 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 five separate counterparties (each a "Counterparty," and collectively, the "Counterparties"). The Agreements are proportionate among four of the five 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.

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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 related Agreement if the other party fails to perform under the terms of such Agreement. A Counterparty may terminate its related Agreement if the State's rating falls below "BBB" from Standard and Poor's Ratings Services ("S&P"), "Baa" from Moody's Investors Service, Inc. ("Moody's") and "BBB" from Fitch Ratings Inc. ("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. The estimated aggregate mark-to-market valuation for all of the Agreements for the State is negative $123.7 million, as of the fiscal year ending June 30, 2013. This estimate is based on the information provided by each counterparty and has not been independently verified by the State.

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HISTORICAL BORROWING

The following table summarizes the level of bond sales from Fiscal Years 2009-2014.

TABLE 8
GENERAL OBLIGATION BOND SALES
($ IN MILLIONS)

Fiscal year	Capital Improvement	Refunding	Special Purpose	Pension
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]	850.0	-	-	-
2014*	2,675.0	-	-	-

[1] $1,300,000,000 June 2013 deal closed in July and is reflected in FY2014

*Inclusive of this issuance

INDEBTEDNESS IN PRIOR YEARS

The following table shows the outstanding GO Bond indebtedness of the State at the end of each fiscal year from 2008-2013.

TABLE 9
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
2013[2]	12,187.5	-	14,686.4

[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.

[2] $1,300,000,000 June 2013 deal closed in July and is not reflected in this table

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 2011 THROUGH 2014–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 anticipates, subject to market conditions, issuing up to $400 million Build Illinois Bonds in March 2014 and up to $700 million General Obligation Bonds in April 2014 to provide additional funds for the Illinois Jobs Now! capital program.

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.

The State continues to look at financing opportunities for paying or restructuring outstanding vouchers and other unfunded liabilities of the State. No assurances can be given as to whether the General Assembly will pass legislation authorizing such a financing or to the structure and terms of such financing.

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.

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 2009 through Preliminary 2013.

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TABLE 10
GENERAL OBLIGATION BONDS
TRANSFERS TO THE GOBRI FUND FOR PAYMENT OF DEBT SERVICE
FISCAL YEARS 2009-2013 (Preliminary)

($ IN MILLIONS)

	2009	2010	2011	2012	Preliminary 2013
General Revenue Fund					
Capital Bonds	$636.0	$686.5	$540.2	$452.8	$550.9
Pension Bonds	466.8	563.5	1,667.2	1,607.2	1,552.5
Other[1]	-	63.0	189.0	-	-
Road Fund	244.6	296.2	391.6	332.9	359.3
School Infrastructure Fund	228.1	213.8	203.7	215.9	209.5
Capital Projects Fund	-	39.7	172.8	240.8	310.1
TOTAL	$1,575.5	$1,862.7	$3,164.6	$2,849.6	$2,982.3

[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 11, 12 and 13 show various measures of the relative burden of the State's general obligation debt and debt service.

TABLE 11
RATIO OF GENERAL OBLIGATION DEBT SERVICE
TO TOTAL GENERAL AND ROAD FUND APPROPRIATIONS
FISCAL YEARS 2009-2013 (Preliminary)

Fiscal Year	Total Appropriations[1] ($ In Millions)	Capital Improvement Bonds Debt Service % of Appropriations	Pension Bonds[2] Debt Service % of Appropriations
2009	36,915	3.14%	1.48%
2010	33,004	3.43%	1.65%
2011	32,411	4.02%	4.15%
2012	36,106	3.60%	4.37%
2013	36,836	3.82%	4.24%

[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.

TABLE 12
RATIO OF GENERAL OBLIGATION DEBT OUSTANDING TO ILLINOIS PERSONAL INCOME FISCAL YEARS 2008-2012[3]

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.

[3] Current data as of January 2, 2014

TABLE 13
GENERAL OBLIGATION DEBT PER CAPITA- ILLINOIS FISCAL YEARS 2008-2012[3]

	2008	2009	2010	2011	2012
Population (in Thousands)[1]	12,902	12,910	12,831	12,869	12,875
Capital Improvement and Refunding Bonds	$733	$701	$849	$959	$990
Pension Bonds[2]	$771	$767	$1,038	$1,322	$1,264

[1] U.S. Department of Commerce, Bureau of the Census, January 2013.

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

[3] Current data as of January 2, 2014

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Table 14
MATURITY SCHEDULE - GENERAL OBLIGATION BONDS
As of January 02, 2014

	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
2014	326,872,201	448,342,406	775,214,607	722,716,908	1,497,931,514	893,200,000	740,879,544	1,634,079,544	3,132,011,058
2015	429,856,279	431,559,441	861,415,720	711,748,315	1,573,164,034	1,093,200,000	704,683,372	1,797,883,372	3,371,047,406
2016	435,116,084	413,990,257	849,106,341	676,157,891	1,525,264,231	700,000,000	656,454,000	1,356,454,000	2,881,718,231
2017	458,530,167	362,361,174	820,891,341	631,713,898	1,452,605,239	1,025,000,000	622,338,000	1,647,338,000	3,099,943,239
2018	450,496,167	347,296,639	797,792,806	582,063,357	1,379,856,164	1,050,000,000	568,615,500	1,618,615,500	2,998,471,664
2019	461,477,317	302,655,000	764,132,317	541,220,332	1,305,352,649	1,075,000,000	511,105,500	1,586,105,500	2,891,458,149
2020	443,401,629	294,720,000	738,121,629	507,404,029	1,245,525,659	225,000,000	449,550,000	674,550,000	1,920,075,659
2021	419,466,898	302,318,985	721,785,883	463,644,464	1,185,430,347	275,000,000	438,412,500	713,412,500	1,898,842,847
2022	472,087,410	225,080,000	697,167,410	416,301,913	1,113,469,323	325,000,000	424,800,000	749,800,000	1,863,269,323
2023	481,767,922	207,210,000	688,977,922	383,516,050	1,072,493,973	375,000,000	408,712,500	783,712,500	1,856,206,473
2024	463,898,968	184,910,000	648,808,968	339,214,704	988,023,672	450,000,000	390,150,000	840,150,000	1,828,173,672
2025	447,228,835	134,265,000	581,493,835	306,692,609	888,186,443	525,000,000	367,200,000	892,200,000	1,780,386,443
2026	463,990,000	128,410,000	592,400,000	272,140,333	864,540,333	575,000,000	340,425,000	915,425,000	1,779,965,333
2027	500,685,000	-	500,685,000	242,454,317	743,139,317	625,000,000	311,100,000	936,100,000	1,679,239,317
2028	509,260,000	-	509,260,000	213,258,900	722,518,900	700,000,000	279,225,000	979,225,000	1,701,743,900
2029	511,610,000	-	511,610,000	182,032,183	693,642,183	775,000,000	243,525,000	1,018,525,000	1,712,167,183
2030	456,500,000	-	456,500,000	154,245,633	610,745,633	875,000,000	204,000,000	1,079,000,000	1,689,745,633
2031	412,455,000	-	412,455,000	129,021,867	541,476,867	975,000,000	159,375,000	1,134,375,000	1,675,851,867
2032	353,575,000	-	353,575,000	106,405,190	459,980,190	1,050,000,000	109,650,000	1,159,650,000	1,619,630,190
2033	352,865,000	-	352,865,000	85,814,147	438,679,147	1,100,000,000	56,100,000	1,156,100,000	1,594,779,147
2034	386,035,000	-	386,035,000	63,282,437	449,317,437	-	-	-	449,317,437
2035	299,240,000	-	299,240,000	42,362,760	341,602,760	-	-	-	341,602,760
2036	201,000,000	-	201,000,000	24,948,400	225,948,400	-	-	-	225,948,400
2037	153,000,000	-	153,000,000	15,200,600	168,200,600	-	-	-	168,200,600
2038	98,000,000	-	98,000,000	7,149,300	105,149,300	-	-	-	105,149,300
2039	66,000,000	-	66,000,000	1,825,500	67,825,500	-	-	-	67,825,500
2040	-	-	-	-	-	-	-	-	-
2041	-	-	-	-	-	-	-	-	-
Total	10,054,414,876	3,783,118,902	13,837,533,778	7,822,536,036	21,660,069,814	14,686,400,000	7,986,300,916	22,672,700,916	44,332,770,730

	Multiple Purpose	Refunding	Pension	Total Principal
Total Principal	10,054,414,876	3,783,118,902	14,686,400,000	28,523,933,778
Less: Current Maturities Paid to Date	136,162,201	330,352,406	693,200,000	1,159,714,607
Outstanding Principal Net of Maturities Paid to Date	9,918,252,675	3,452,766,496	13,993,200,000	27,364,219,171

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. Liabilities displayed in Table 15 below are in addition to those set forth in Table 1A which, when these amounts are combined, approximate fiscal year end gross outstanding bills. These liabilities have accrued during the current and prior fiscal years, but will be paid from future Fiscal Years' appropriations. See also the most recent Three-Year Projection on GOMB's website as provided in "STATE OF ILLINOIS—WEBSITE INDEX."

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 2007 to 2012. The increase in Revenues in Fiscal Year 2013 was used predominately to pay outstanding bills including "Section 25" bills. Additionally, appropriations were passed in the Spring 2013 Legislative Session that included $350 million to pay outstanding Group Health bills and $229 million to pay outstanding Department of Human Services bills. As a final note, by legislation, in PA 97-691, no more than $100 million per year (not including Medicaid bills incurred but not recorded at the Department of Healthcare and Family Services), may be deferred under "Section 25".

TABLE 15
SECTION 25 LIABILITIES - FISCAL YEARS 2008-2013
(Preliminary)[1]
($ IN THOUSANDS)

	2008	2009	2010	2011	2012	Preliminary 2013
Medical Assistance (comprised mostly of Medicaid)						
Healthcare and Family Services (HFS)	$2,148,749	$1,045,951	$929,475	$718,385[1]	$2,224,274	$888,125
Human Services (DHS)	105,383	123,943	67,756	73,557	221,232	77,440
Total, Medical Assistance	$2,254,132	$1,169,894	$997,231	$791,942	$2,445,506	$965,565
Group Health Insurance Liability Due to Health Insurance Fund						
Healthcare and Family Services (HFS)	$113,363	$321,078	$523,535	$1,048,951	$1,182,875	$1,425,904
Total	$2,367,495	$1,490,972	$1,520,766	$1,840,893	$3,628,381	$2,391,469

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

[1] 2013 figures are preliminary and subject to audit

[2] 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 unpaid business income tax refunds. As of January 2, 2014, due to the processing cycle, there were $8.9 million of unpaid business income tax refunds according to the Illinois Department of Revenue. Table 15A shows the historical data of the Unpaid Income Tax Refund Fund.

TABLE 15A
BUSINESS INCOME TAX REFUNDS PAYABLE - FISCAL YEARS ENDING 2008-2013
(Preliminary)
($ IN MILLIONS)

	2008	2009	2010	2011	2012	2013
Unpaid Business Refunds	$3.5	$214.2	$690.9	$583.9	$69.0	$40.0

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

REVENUE BONDS

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

TABLE 16
REVENUE BONDS
AS OF DECEMBER 31, 2013
($ IN MILLIONS)

Revenue Bond Program	Bonds Outstanding
Build Illinois - Sales Tax Revenue Bonds	2,798.9
Metropolitan Exposition and Auditorium Authorities - Civic Center Program	52.0
MPEA[1,2] - McCormick Place Expansion Project and Refunding Bonds	2,503.8
Illinois Sports Facilities Authority	433.2
Illinois Certificates of Participation	11.4
Railsplitter Tobacco Settlement Bonds	1,317.0
Total	**$7,116.3**

1 Metropolitan Pier and Exposition Authority ("MPEA")

2 Includes capital appreciation bonds expressed in the amount of original principal issuance. See Table 17 for accreted principal amounts on capital appreciation bonds.

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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 $6,246 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 to defease the remaining $18 million of MPEA Dedicated State Tax Bonds. This now allows bonds issued under the Build Illinois Bond program to be the sole bonds with first lien on the State share of sales tax revenues.

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 January 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.

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TABLE 17
MATURITY SCHEDULE -- REVENUE BONDS
Bond Issuances through January 2, 2014[1]

Year Ending June 30	Build Illinois	MPEA Expansion Project	Civic Center Program	Sports Facilities Authority	Illinois Certificates of Participation	Railsplitter Tobacco Settlement Bonds	Total Principal	Total Interest	Total Debt Service
2014	218,619,306	22,384,911	10,705,000	6,019,695	2,440,000	70,860,000	331,028,912	352,347,086	683,375,998
2015	216,626,038	17,526,860	11,415,000	6,907,832	2,590,000	76,820,000	331,885,730	365,055,709	696,941,439
2016	217,680,000	18,695,335	12,020,000	7,773,337	2,750,000	80,655,000	339,573,672	352,635,123	692,208,795
2017	202,660,000	26,177,234	5,488,409	8,581,095	2,915,000	84,700,000	330,521,739	352,237,933	682,759,671
2018	187,900,000	26,007,384	5,668,835	6,805,418	3,140,000	89,040,000	318,561,636	357,964,428	676,526,065
2019	174,910,000	35,200,083	5,875,462	7,039,442	-	93,620,000	316,644,987	364,945,578	681,590,564
2020	158,865,000	42,054,453	6,103,026	7,467,726	-	98,565,000	313,055,205	359,350,657	672,405,862
2021	128,005,000	80,967,400	5,405,000	7,889,845	-	103,900,000	326,167,245	315,368,403	641,535,648
2022	138,465,000	54,313,012	-	8,307,537	-	109,655,000	310,740,549	346,170,467	656,911,016
2023	127,180,000	109,057,495	-	8,726,172	-	107,260,000	352,223,667	292,488,595	644,712,261
2024	119,985,000	45,216,436	-	9,138,953	-	104,945,000	279,285,389	347,631,805	626,917,194
2025	118,870,000	48,272,449	-	9,521,669	-	103,455,000	280,119,118	335,642,266	615,761,384
2026	117,020,000	55,469,129	-	15,610,731	-	102,380,000	290,479,860	297,351,693	587,831,553
2027	95,415,000	95,643,545	-	32,537,372	-	101,275,000	324,870,917	244,567,867	569,438,784
2028	73,915,000	126,092,687	-	36,970,797	-	53,405,000	290,383,484	224,038,066	514,421,551
2029	73,915,000	131,355,321	-	41,810,210	-	-	247,080,531	211,678,953	458,759,484
2030	65,810,000	10,277,690	-	52,405,826	-	-	128,493,516	357,281,285	485,774,801
2031	70,790,000	9,145,954	-	75,355,000	-	-	155,290,954	337,411,204	492,702,158
2032	64,790,000	8,140,997	-	84,295,000	-	-	157,225,997	331,405,168	488,631,165
2033	64,790,000	7,243,844	-	-	-	-	72,033,844	325,144,328	397,178,172
2034	64,790,000	6,447,732	-	-	-	-	71,237,732	322,980,947	394,218,679
2035	42,710,000	5,737,216	-	-	-	-	48,447,216	320,794,470	369,241,686
2036	42,710,000	5,107,150	-	-	-	-	47,817,150	319,654,468	367,471,618
2037	12,500,000	4,545,622	-	-	-	-	17,045,622	318,445,928	335,491,550
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	2,798,920,344	2,521,246,710	62,680,732	433,163,657	13,835,000	1,380,535,000	7,210,381,443	11,060,650,796	18,271,032,239

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.

[1] Does not reflect maturities from July 1 through December 31 of the current Fiscal Year

Moral Obligation Bonds and Other Moral Obligation Commitments

Currently, six 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 must then submit the amounts so certified to the General Assembly, but the Governor's recommendation of these and all other State appropriations are a matter of executive discretion. Thus, the moral obligation pledge does not constitute a legally enforceable obligation of the Governor to recommend a State appropriation. Moreover, the General Assembly is not statutorily required to make an appropriation for the amount so certified by the authority, nor must the Governor sign any such appropriation bill if passed by the General Assembly.

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

TABLE 18
MORAL OBLIGATION ESTIMATED DEBT[1]
ESTIMATED AS OF DECEMBER 31, 2013
($ IN MILLIONS)

Issuing Authority	Moral Obligation Bonds Outstanding
Southwest Illinois Development Authority	$22.0
Upper Illinois River Valley Development Authority	15.3
Illinois Finance Authority[2]	74.7
Illinois Housing Development Authority	0.3
Total	**$112.3**

[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 $449 million. Should no additional prepaid tuition contracts be sold under the College Illinois program, actuaries 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 2023 and concluding in 2050 and, depending upon which actuarial assumptions are used, could total in excess of $1.1 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 $385 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 December 31, 2013, the available balances in the Reserve Funds held by the IFA were $10.1 million and $7.8 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 December 31, 2013, the IFA Loan Programs secure: (i) $11.7 million in Illinois Agricultural Loans and (ii) $11.1 million in Illinois Farmer & Agribusiness Loans. In total, 85% of these two Loan Programs or $19.3 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.

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CERTAIN INVESTMENT CONSIDERATIONS

PURCHASE AND OWNERSHIP OF THE BONDS IS SUBJECT TO A VARIETY OF RISKS. EACH PROSPECTIVE INVESTOR IN THE BONDS IS ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE INVESTMENT CONSIDERATIONS DESCRIBED BELOW WHICH, AMONG OTHER THINGS, COULD AFFECT THE FINANCIAL CONDITION OF THE STATE AND COULD ALSO AFFECT THE MARKETABILITY AND/OR MARKET PRICE OF THE BONDS AFTER THEY ARE ISSUED TO AN EXTENT THAT CANNOT NOW BE DETERMINED. THE CONSIDERATIONS DESCRIBED BELOW ARE NOT ALL OF THE INVESTMENT CONSIDERATIONS ASSOCIATED WITH THE PURCHASE AND OWNERSHIP OF THE BONDS. NEITHER THE INCLUSION OR OMISSION OF CONSIDERATIONS FROM THIS SECTION, NOR THE ORDER IN WHICH THEY ARE PRESENTED, NECESSARILY REFLECTS THE RELATIVE IMPORTANCE OF THE VARIOUS INVESTMENT CONSIDERATIONS.

PENSION REFORM LEGISLATION AND RELATED LITIGATION

Public Act 98-0599, signed into law on December 5, 2013, and effective on June 1, 2014 ("PA 98-0599"), provides for changes to four of the five State retirement systems. Lawsuits have been filed challenging the constitutionality of the legislation, and the State expects further such lawsuits to be filed. The effective date of the reforms included in PA 98-0599 may be delayed during the pendency of this litigation, even if the legislation is ultimately upheld. The State can provide no assurance as to the timing of the final rulings in these or future lawsuits, their outcome, or the impact on the State's financial condition of any rulings in these lawsuits. Should PA 98-0599 be declared unconstitutional or otherwise invalid, the State's financial condition will be materially worse than the State's anticipated financial condition if PA 98-0599 is upheld and its reforms implemented. See "PENSION SYSTEMS—2013 LEGISLATION MODIFYING PENSION STRUCTURE" and "LITIGATION—PENSION REFORM LITIGATION."

REDUCTION OF INCOME TAX RATES

Public Act 96-1496, signed into law by the Governor on January 11, 2011, increased the rates of the State individual income tax from 3.0% to 5.0% and of the State's corporate income tax from 4.8% to 7.0%. Under Public Act 96-1496, these rates decline automatically to 3.75% and 5.25%, respectively, effective on December 31, 2014. If no further legislative action is taken, it is expected that this reduction in rates will reduce annual income tax revenues by between $4 billion and $5 billion, which would materially adversely affect the State's financial condition and operations beginning in Fiscal Year 2015. See "STATE FINANCIAL INFORMATION—THREE-YEAR PROJECTION: FY 2015 - FY 2017."

FISCAL YEAR 2015 BUDGET

On March 26, 2014, the Governor is scheduled to deliver his proposed budget for Fiscal Year 2015 (the "Governor's Proposed Fiscal Year 2015 Budget"). The date of delivery of the Governor's Proposed Fiscal Year 2015 Budget, originally scheduled for February 19, 2014, was changed pursuant to Public Act 98-0626. The text of the Governor's budget address as well as the Governor's Proposed Fiscal Year 2015 Budget is expected to be available at the State of Illinois website. See "STATE OF ILLINOIS—WEBSITE INDEX." The Governor's Proposed Fiscal Year 2015 Budget must be balanced and must be based on revenues generated by the statutory tax rates effective from time to time during the period of such budget, which tax rates, as stated above, will decline automatically on December 31, 2014 absent further legislative action.

The General Assembly will likely amend the Governor's Proposed Fiscal Year 2015 Budget when it passes a final budget for Fiscal Year 2015, which is expected in late May of 2014. To produce a balanced budget, the Governor and the General Assembly will, among other potential solutions, need to either change tax rates, reduce expenditures to levels that will significantly impact the ability of the State to provide needed services, or a combination of a change in tax rates and reductions in expenditures. The State can provide no assurances as to how, when or in what form the resolution of this issue will take. Although the Governor and the General Assembly may make decisions on the Fiscal Year 2015 Budget at their discretion, there is currently no formal proposal to issue additional debt in a material amount as a measure to balance the Fiscal Year 2015 Budget.

No assurances can be given with respect to the impact, if any, of the content of the Governor's budget address, the Governor's Proposed Fiscal Year 2015 Budget or the final adopted Fiscal Year 2015 Budget passed by the General Assembly and signed by the Governor, on the price of the Bonds in the secondary market.

FISCAL YEAR 2014 BUDGET

The Fiscal Year 2014 Budget is based on expectations and assumptions of the State that are subject to a number of known and unknown risks and uncertainties, many of which are beyond the State's control. These include, among others, general economic conditions, demographic trends, natural disasters, terrorism, and reductions in or elimination of federal programs which may adversely affect the transfer of funds from the Federal Government to the State. Accordingly, the expectations and assumptions of the State upon which the Fiscal Year 2014 Budget is based may not be realized and the State's financial condition could be materially adversely affected. See "STATE FINANCIAL INFORMATION—FISCAL YEAR 2014 (JULY 2013 - JUNE 2014) REVISED BUDGET."

FUTURE CHANGES IN FEDERAL TAX LAWS

There are or may be pending in the Congress of the United States legislative proposals relating to the federal tax treatment of interest on the Bonds, including some that carry retroactive effective dates, that, if enacted, could affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to Bonds issued prior to enactment. Finally, reduction or elimination of the tax-exempt status of obligations such as the Bonds could have an adverse effect on the State's ability to access the capital markets to finance future capital or operational needs by reducing market demand for such obligations or materially increasing borrowing costs of the State.

LOSS OF TAX EXEMPTION

As discussed under "TAX MATTERS" herein, interest on the Bonds could become includible in gross income for purposes of federal income taxation, retroactive to the date the Bonds were issued, as a result of future acts or omissions of the State in violation of its covenants in the Tax Exemption Certificate and Agreement entered into in connection with the issuance of the Bonds or future Congressional actions. Should such an event of taxability occur, the Bonds are not subject to any special redemption solely as a result of the occurrence of events which would cause taxability and will remain outstanding until maturity or redeemed as described under "THE OFFERING—REDEMPTION."

IRS BOND EXAMINATIONS

The tax-exempt bond office of the Internal Revenue Service (the *"Service"*) is conducting audits of tax-exempt bonds, both compliance checks and full audits, with increasing frequency to determine whether, in the view of the Service, interest on such tax-exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether the Service will commence any such audit. If an audit is commenced, under current procedures the Service may treat the State as a taxpayer and the Bondholders may have no right to participate in such proceeding. The commencement of an audit with respect to any tax-exempt obligations of the State could adversely affect the market value and liquidity of the Bonds, regardless of the ultimate outcome.

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").

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. Information regarding the benefits provided by each Retirement System are available at the website for such system. See "STATE OF ILLINOIS—WEBSITE INDEX."

For SERS, the State provides the majority of contributions for State employees combined with contributions from trust and federal funds. For 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 or 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. The Board of each Retirement System is required, on or before November 1 of each year, to submit a proposed certification to the State Actuary of the amount necessary to pay the Required Annual Statutory Contribution (as defined below) for inclusion in the Governor's budget for the following fiscal year. In November of each year, the Retirement Systems are required to prepare preliminary reports. By January 1 of each year, the State Actuary is 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. This Official Statement reflects the most current, final reports of the Retirement Systems and Auditor General. Final audits of the pension systems may be found at the Auditor General's website. See STATE OF ILLINOIS—WEBSITE INDEX." Final actuary reports for Fiscal Year 2013 may be found at each system's website. See "STATE OF ILLINOIS—WEBSITE INDEX."

The position of State Actuary is within the Office of the Auditor General and responsible for reviewing actuarial practices, assumptions, and valuations of the actuaries of the Retirement Systems. The State

Actuary's Fiscal Year 2013 report on the actuarial assumptions and valuations of the Retirement Systems is available on the State Auditor General's website. See "STATE OF ILLINOIS—WEBSITE INDEX." The assumptions contained in the 2013 Actuarial Valuation reports of the Retirement Systems were affirmed by the State Actuary; however, recommendations were made for additional disclosure to the 2013 Actuarial Valuations, as well as certain changes for future Actuarial Valuations including a recommendation that certain of the Retirement Systems lower their respective assumed investment rate of return assumptions in the future. See "—ACTUARIAL ASSUMPTIONS—*ASSUMED INVESTMENT RATE OF RETURN*" for additional information regarding the assumed investment rate of return assumption. If the Retirement Systems lower their assumed investment rate of return assumptions as recommended, the effect will be, considered independently of other factors, to increase the UAAL (as hereinafter defined) and the Required Annual Statutory Contribution and to decrease the Funded Ratio (as hereinafter defined). The Board of each Retirement System must consider all recommendations of the State Actuary, however, no assurance can be given any recommendations will be adopted. The responses of each System to the recommendations of the State Actuary are contained in Appendix C of the aforementioned report.

In the event that the General Assembly fails to appropriate the amount certified by the Retirement Systems, the Pension Code (40 ILCS 5/ *et. seq*.) requires payments to be made by the Comptroller and the Treasurer to the Retirement Systems in amounts sufficient to meet the requirements of the Statutory Funding Plan (as described in this Official Statement; See "—DETERMINATION OF EMPLOYER CONTRIBUTIONS—*THE ACTUARIAL VALUATION*" below. 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. A failure by the State to meet its payment obligations may result in increased investment risk for bondholders. In addition, 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 been funded at less than the Actuarially Required Contribution level, 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

With regard to the following, except "Excluded Information" defined below, the information contained in this Official Statement relies on materials produced by the Retirement Systems, their independent accountants and their independent actuaries (the "Source Information"). The information presented in this Official Statement 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. "Excluded Information" means information contained under the following sub-captions below: "—RECENT REPORTS REGARDING THE RETIREMENT SYSTEMS," "—2013 LEGISLATION MODIFYING PENSION STRUCTURE," "—SEC ORDER," and "—PENSION DISCLOSURE POLICIES AND PROCEDURES."

Furthermore, where tables in this disclosure present aggregate information regarding the Retirement Systems, specifically in Tables 23 through 33, 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 the Governmental Accounting Standards Board ("GASB") or the Statutory Funding Plan.

The State is obligated to make contributions to the Retirement Systems as set forth in the Pension Code. See "—DETERMINATION OF EMPLOYER CONTRIBUTION - *STATUTORY FUNDING PLAN NOT IN ACCORDANCE WITH GASB 25*" below. In addition, the Retirement Systems' members make 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 2009 through 2013, see Tables 24 through 28.

The comprehensive annual financial reports ("Retirement Fund CAFR") of the Retirement Systems for the fiscal year ending June 30, 2013, and the Actuarial Valuations of the Retirement Systems for the fiscal year ending June 30, 2013, are incorporated by reference. These documents for each Retirement System are available upon written request to the respective Retirement System. For contact information for each of the Retirement Systems, see each Retirement System's website provided in "STATE OF ILLINOIS—WEBSITE INDEX."

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. One appointed trustee position is 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, approximately 95% of the employer funding for TRS is the responsibility of the State. TRS receives contributions from 861 local school districts, 138 special districts and 20 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, 2013, TRS had a total membership of 389,800, consisting of 160,692 active members, 120,325 inactive members entitled to benefits but not yet receiving them, and 108,783 retirees and beneficiaries currently receiving benefits. Members contribute 9.4% of their salary to TRS. Certain school districts provide for member contributions on behalf of their employees. This is subject to each district's collective bargaining agreement. 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 17 other State agencies. As of June 30, 2013, SURS had a total membership of 220,727, consisting of 70,556 active members (in addition to 10,746 in the Self-Managed Plan, as defined below), 74,569 inactive members entitled to benefits but not yet receiving them (in addition to 7,627 in the Self-Managed Plan described below), and 57,229 retirees and beneficiaries currently receiving benefits (in addition to 334 in the Self-Managed Plan). 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 which provide a predetermined level of benefits to the employee, only employer contributions to the plan are assured. Members contribute 8.0% of their gross earnings. See "—2013 LEGISLATION MODIFYING PENSION STRUCTURE" below for a description of a voluntary defined benefit plan established for certain employees under PA 98-0599.

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 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. Two appointed trustee positions and one elected trustee are currently vacant. All trustees except for the Comptroller serve five-year staggered terms.

SERS membership is automatic for most State employees not eligible for another State-sponsored retirement plan. In addition, certain employees appointed by the Governor and requiring confirmation by the Senate may elect to become members of SERS. As of June 30, 2013, SERS had a total membership of 150,579, consisting of 61,545 active members, 23,984 inactive members, 65,050 retirees and beneficiaries currently receiving benefits (excluding 247 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. Of active employees, 59,045 are coordinated with Social Security. All other active employees are not coordinated with Social Security.

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 five-person Board of Trustees, consisting of the Treasurer, the Chief Justice of the Supreme Court, and three participating judges who are appointed by the Supreme Court. The three participating judges serve three-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, 2013, JRS had a total membership of 2,062, consisting of 962 active members, 22 inactive members, and 1,078 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. Under certain circumstances, 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, under certain circumstances, the Clerk and Assistant Clerk of the House and the Secretary and Assistant Secretary of the Senate. GARS is governed by a seven-member Board of Trustees, consisting of the President of the Senate (or his designee), two members of the Senate appointed by the President of the Senate; three 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 two-year terms while the elected trustee serves a four-year term. The elected annuitant trustee position is currently vacant.

Participation in GARS is optional. As of June 30, 2013, GARS had a total membership of 675, consisting of 160 active members, 86 inactive members, and 429 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. See "—2013 LEGISLATION MODIFYING PENSION STRUCTURE" below for a description of a voluntary defined benefit plan established for certain employees under PA 98-0599.

With the exception of certain SERS members, as discussed above, 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, 2013, the membership in each of the Retirement Systems and the required membership contributions as a percentage of member salary were as follows:

TABLE 19 - MEMBERSHIP AND MEMBER CONTRIBUTIONS

Retirement System	Active Members	Inactive/ Entitled to Benefits	Retirees and Beneficiaries	Total	Member Contribution (1)
TRS	160,692	120,325	108,783	389,800	9.40%
SURS	70,556	74,569	57,229	202,354	8.0% - 9.5% (2)
SURS/SMP (5)	10,746	7,627	334	18,707	7.60%
SERS (3)	61,545	23,984	65,050	150,579	4.0% - 12.5% (4)
JRS	962	22	1,078	2,062	11.00%
GARS	160	86	429	675	11.50%
Total	304,661	226,613	232,903	764,177	

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2013, except for information regarding TRS which is from its Retirement Fund CAFR for the fiscal year ending June 30, 2013.

(1) Represents the percentage of salary a member is required to contribute annually to the respective Retirement System under the pension code. Certain school districts provide for member contributions on behalf of their employees.

(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) Excludes SERS members eligible for deferred benefits totaling 247 for fiscal year ending June 30, 2013.

(4) Members covered by Social Security contribute 4% of their salary if ineligible for an alternative benefits formula and 8.5% of salary if eligible fo: 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.

(5) The SURS/SMP refers to the SURS Self Managed Plan.

DETERMINATION OF EMPLOYER CONTRIBUTIONS

Actuaries and the Actuarial Process

Under the Pension Code, the required employer contributions to the Retirement Systems are determined by independent actuaries on an annual basis. Actuaries use demographic data about the Retirement System's membership (such as employee age, salary and service credits), the Retirement Fund's assets, the benefit provisions of the Retirement System, the Retirement System's funding policies, certain actuarial cost methods, 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 Systems 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 the GASB standards 25 and 27.

The Pension Code requires each Retirement System to produce a preliminary Actuarial Valuation within four months of the end of such Retirement System's fiscal year and a final Actuarial Valuation within six months for the System's fiscal year end. 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 an actuarial firm 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 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 to the GASB pension standard, 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, which would be required under GASB pension standard. The differences between GASB's requirements and the State's statutory requirements are discussed in "—DETERMINATION OF EMPLOYER CONTRIBUTION - *STATUTORY FUNDING PLAN NOT IN ACCORDANCE WITH GASB 25*" 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." To calculate the Actuarial Accrued Liability, the actuary uses a variety of demographic data about the Retirement System's membership (such as employee age, salary and service credits), the benefit provisions of the Retirement System, and various assumptions (such as estimated salary increases, interest rates, employee turnover, mortality and disability rates) to estimate future benefit payments, which are then discounted using an assumed investment rate of return to determine the present value of future benefits (the "PV of Future Benefits"). The PV of Future Benefits is an estimate of the value of the benefits to all members as of the date of the Actuarial Valuation, and includes benefits not yet earned, but assumed to be earned, by members of the Retirement System. Using an actuarial cost method, the actuary allocates the PV of Future Benefits to past, current and future service for each member of the Retirement System. The portion of the PV of Future Benefits allocated to past service is referred to as the Actuarial Accrued Liability and the portion of the PV of Future Benefits allocated to current service is referred to as the "Normal Cost." 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.

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

1 GASB pronouncements refer to this concept as the Annual Required Contribution. In this Official Statement, this concept is referred to as the Actuarially Required Contribution and differs from the State's statutorily defined concept of the Required Annual Statutory Contribution. The Actuarially Required Contribution, under GASB standards, is the amount required to pay the employer's normal cost plus the cost to amortize the plan's UAAL over a period of no more than 30 years. The method of determining the State's Required Annual Statutory Contribution is put forth in the applicable statutes of the Illinois Pension Code (40 ILCS 5/) for each State pension system.

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 actuarial assets are sufficient to pay the present value of currently estimated 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 a constant percent of payroll necessary to allow the Retirement Systems to achieve a 90% Funded Ratio by Fiscal Year 2045, subject to any revisions necessitated by actuarial gains or losses, or actuarial assumptions. Effective June 1, 2014, PA 98-0599 will change the method in which contributions required to be made by the State pursuant to the Pension Code will be calculated. See "—2013 LEGISLATION MODIFYING PENSION STRUCTURE" herein for additional information.

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 provisions of GASB 25 regarding financial reporting for defined-benefit pension plans. 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 for 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 allows amortization of the entire UAAL over a 30-year open or closed 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, a 33-year amortization period was used to calculate the Required Annual Statutory Contribution for Fiscal Year 2013, inclusive, while a 32-year amortization period was used to calculate the Required Annual Statutory Contribution for Fiscal Year 2014, inclusive. 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. 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 it is the intent to have the UAAL decrease in each year, the amount of time necessary to fully amortize the UAAL would be far longer as it is recalculated each year. The actual results of both an open or closed amortization schedule will be impacted by any changes in actuarial assumptions and/or the performance of the asset portfolio. 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" below. See "—2013 LEGISLATION MODIFYING PENSION STRUCTURE" for important changes to the funding schedule.

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 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 a constant percent of payroll necessary to reach a 90% Funded Ratio by Fiscal Year 2045 and does not require elimination of the entire UAAL. Effective June 1, 2014, PA 98-0599 will change the funding target for certain of the Retirement Systems. See "—2013 LEGISLATION MODIFYING PENSION STRUCTURE" below for additional information.

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 is a measure of the value of the assets available in the pension plan to pay benefits. Beginning with Fiscal Year 2009, the State amortizes actuarial 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 incurred 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, the Funded Ratio, and the Required Annual Statutory Contribution that may otherwise occur as a result of market volatility. Asset smoothing amortizes each year's gains and losses over a five-year period, and thus the current Actuarial Value of Assets does not reflect the fair value at the time of measurement. As a result, presenting the Actuarial Value of Assets as determined under the Asset Smoothing Method will provide a different presentation of the current financial position of a pension plan than would a method that immediately recognizes investment gains and losses annually. Although not contemplated by State law, other public sector pension plans have adopted a variation of the Asset Smoothing Method whereby a maximum spread or "corridor" is imposed on the difference between the Actuarial Value of Assets and the fair value of assets.

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. The assets of the Retirement Systems declined by 24.9% on a fair value basis during Fiscal Year 2009, however, through the application of the Asset Smoothing Method, the actuarial value of assets decreased by only 1.1%. 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 24 through 28, set forth below, reflect the Retirement Systems' Funded Ratios both measured at fair value and based on application of the Asset Smoothing Method.

Actuarial Accrued Liability

As described above, the actuary for a Retirement System uses an actuarial cost method in calculating the Actuarial Accrued Liability and the Normal Cost. While actuarial cost methods differ, all are based on the concept that the funding of benefits should occur as benefits are earned by active members of a Retirement System. Different actuarial cost methods will produce different contribution patterns, but such actuarial cost methods will not change the actual cost of the benefits.

The Pension Code requires that the Actuarial Accrued Liability of JRS and, through the end of Fiscal Year 2015, each of the Affected Retirement Systems (as hereinafter defined) be calculated pursuant to the projected unit credit actuarial cost method (the "PUC Method"). PA 98-0599 provides that, beginning in Fiscal Year 2016, the Affected Retirement Systems use an entry age normal actuarial cost method (the "EAN Method") instead of the PUC Method. See "—2013 LEGISLATION MODIFYING PENSION STRUCTURE" below for additional information regarding PA 98-0599.

The PUC Method allocates the PV of Future Benefits based on the service credits of each member of a Retirement System. In contrast, under the EAN Method, the Normal Cost rate for each member is developed as the level percent of payroll that, if applied to the member's pay each year and contributed over the member's expected career, would fully fund the member's PV of Future Benefits. The EAN Method is designed to produce a Normal Cost that is stable in amounts that increase at the same rate as the employer's payroll, whereas the PUC Method results in a Normal Cost that tends to increase faster than the employer's payroll.

Considered independently of other factors, use of the EAN Method results in higher contribution rates associated with the earlier years of employment for active employees, when compared to the PUC Method. This allows a Retirement System to accumulate greater investment returns throughout the careers of such employees and results in lower aggregate employer contributions in the long-term. In contrast, use of the PUC Method tends to result in lower contribution rates in the earlier years of employment for active employees and, therefore, a slower accumulation of assets and rising, rather than level, contribution rates when compared to the EAN Method. Such differences between the PUC Method and the EAN Method result from the fact that the PUC Method allocates a higher portion of retirement costs closer to retirement, while the EAN Method spreads those costs evenly as a percentage of pay over the member's period of employment.

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 will 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 20. For additional information on these assumptions, please see each Retirement System's Actuarial Valuation.

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TABLE 20 - 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]	8.00%	7.75%	7.75%	7.00%	7.00%
Assumed Inflation Rate	3.25%	2.75%	3.00%	3.00%	3.00%
Post-Retirement Increase [7]	3.00%	3.00%	3.00%	3.00%	3.00%
Projected Salary Increases	6.00% [3]	3.75% to 12.0%[4]	1.00% - 5.87% [5]	3.50%[6]	3.75%[6]

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2013.

(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 its assumed rate from 8.0% to 7.0%. GARS reduced their assumed investment rate of return from 8.0% to 7.0% in fiscal year ending June 30, 2011. TRS reduced its assumed investment rate of return from 8.5% to 8.0% in fiscal year ending June 30, 2012.

(3) Represents a composite of projected salary increases which vary between 5.0% (at age 60) and 10.15% (at age 20). Includes inflation (3.25%) and real wage growth (0.75%) 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%.

(7) All values are compounded.

The Pension Code requires each of the Retirement Systems to conduct an actuarial experience review every five years. SURS, SERS, GARS and JRS last conducted an actuarial experience review in 2011, and TRS conducted its experience review in 2012. The purpose of the experience review is to determine the reasonableness of the actuarial assumptions regarding mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the Retirement Systems. Pursuant to the passage of Public Act 97-694, see "—GENERAL" above, the State Actuary is required to review future actuarial experience reviews submitted by the Retirement Systems and deliver a report on the reasonableness of the actuarial assumptions contained therein to the Board of the applicable Retirement System. Based upon the results of this review, the board of the applicable Retirement System may revise 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 rates of return to 7.75% and JRS reduced its 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. TRS reduced its assumed investment rate of return to 8.00% for the Actuarial Valuation issued for the Fiscal Year ending June 30, 2012. The reductions previously approved by SURS, SERS, JRS and GARS, and the reduction approved by TRS in Fiscal Year 2012, have the effect of increasing the UAAL and the Required Annual Statutory Contribution as the Retirement Systems 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 21 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 actuarial 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 recent fiscal years, 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 when considered independently of other factors.

TABLE 21 - INVESTMENT RATES OF RETURN, FISCAL YEARS 2004-2013

	TRS		SURS		SERS		GARS		JRS	
Fiscal Year	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*
2004	8.5%	16.5%	8.5%	17.0%	8.5%	16.4%	8.0%	16.4%	8.0%	16.4%
2005	8.5%	10.8%	8.5%	10.4%	8.5%	10.1%	8.0%	10.1%	8.0%	10.1%
2006	8.5%	11.8%	8.5%	11.7%	8.5%	11.0%	8.0%	11.0%	8.0%	11.0%
2007	8.5%	19.2%	8.5%	18.3%	8.5%	17.1%	8.0%	17.1%	8.0%	17.1%
2008	8.5%	-5.0%	8.5%	-4.5%	8.5%	-6.2%	8.0%	-6.2%	8.0%	-6.2%
2009	8.5%	-22.7%	8.5%	-19.7%	8.5%	-20.1%	8.0%	-20.1%	8.0%	-20.1%
2010	8.5%	12.9%	7.8%	15.0%	7.8%	9.1%	8.0%	9.1%	7.0%	9.1%
2011	8.5%	23.6%	7.8%	23.8%	7.8%	21.7%	7.0%	21.7%	7.0%	21.7%
2012	8.0%	0.8%	7.8%	0.5%	7.8%	0.1%	7.0%	0.1%	7.0%	0.1%
2013	8.0%	12.8%	7.8%	12.5%	7.8%	14.1%	7.0%	14.1%	7.0%	14.1%
5-Yr. Avg. Mathematical Return	-	5.5%	-	6.4%	-	5.0%	-	5.0%	-	5.0%
10-Yr Avg. Mathematical Return	-	8.1%	-	8.5%	-	7.3%	-	7.3%	-	7.3%

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2004 through June 30, 2013.

NET PENSION OBLIGATION

GASB 25 calls for the calculation and disclosure of the Net Pension Obligation (the "NPO") in the financial statements of the pension plan, while GASB 27 calls for 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 30 presents a ten-year history of the Net Pension Obligation, as reported in either the Retirement Fund 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 and reporting of pension plan assets and liabilities in which state and local governments participate. Major changes include: (1) the recognition of a Net Pension Liability as the unfunded portion of the employer's pension obligation 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) the rate used to discount projected benefit payments will be based on a single rate that reflects the long-term expected rate of return for plan assets sufficient to pay projected benefit payments and a 20-year, high grade municipal bond index rate for assets that fall short of expected future benefit payments; and (4) additional disclosure in the notes and supplementary sections of the employer's basic financial statements, including description of the benefit plan and actuarial assumptions, changes and components of the Net Pension Liability and plan contribution schedules. In addition, GASB 67 and 68 require use of the EAN Method to calculate the Actuarial Accrued Liability, as opposed to the PUC Method used in the Statutory Funding Plan. 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.

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 constant 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. The constant percent of payroll is revised and adjusted each year based on modifications to the actuarial assumptions and changes in the value of the asset portfolio. 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 "—DETERMINATION OF EMPLOYER CONTRIBUTION - *STATUTORY FUNDING PLAN NOT IN ACCORDANCE WITH GASB 25*" 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 in Fiscal Year 2004. 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 22 below for a schedule of the remaining 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, and, therefore, reduced future contributions from the levels that would have been required if the bond proceeds had not been used as additional contributions. The reduction of future Required Annual Statutory Contributions by the debt service payments on the 2003 Pension Bonds had the effect of increasing the UAAL, however, because the State does 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 21, 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 21 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. No assurance can be given that future investment trends or legislation affecting the Statutory Funding Plan will not occur, causing further change in the UAAL.

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TABLE 22 - 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
2013	$586.4	2023	$783.7
2014	582.5	2024	840.2
2015	578.6	2025	892.2
2016	574.5	2026	915.4
2017	595.2	2027	936.1
2018	614.7	2028	979.2
2019	633.2	2029	1,018.5
2020	674.6	2030	1,079.0
2021	713.4	2031	1,134.4
2022	749.8	2032	1,159.7
		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 ("PA 94-4"). PA 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 $2.12 billion in Fiscal Year 2006 and $2.51 billion in Fiscal Year 2007. PA 94-4 reduced these contributions to $0.94 billion and $1.37 billion, respectively, which represented reductions of 55.7% and 45.3%, respectively. The contribution reductions required by PA 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 because actual investment returns were below rate of return assumptions and the annual contributions were below the Actuarially Required Contributions. 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 reflected a State contribution for Fiscal Year 2010 of $3.61 billion. On January 7, 2010, the State issued $3.47 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. Pursuant to the authorization under PA 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. In Fiscal Years 2010 and 2011, the UAAL increased even though the State made the Required Annual Statutory Contributions, because such contributions were lower than the Actuarially Required Contributions.

The State made all required Fiscal Year 2012 and 2013 payments to the Retirement Systems but certain of the required monthly payments were not made on a timely basis. The State has not made all of its monthly payments to the Retirement Systems on a timely basis during Fiscal Year 2014. In the past, the Retirement Systems have sold assets to pay benefits as a result of a deficit between the contributions actually received 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, resulting in higher future Required Annual Statutory Contributions.

Pursuant to the Statutory Funding Plan, commencing with Fiscal Year 2011, the State is required to make contributions to the Retirement Systems at the constant 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 any fiscal year, 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 and the investment risk to bondholders will increase. 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 to be contributed in any given year. Effective June 1, 2014, PA 98-0599 will change the method in which contributions required to be made by the State pursuant to the Pension Code will be calculated. See "—2013 LEGISLATION MODIFYING PENSION STRUCTURE" below.

Table 23 shows the State's Actuarially Required Contributions along with the percentage of those contributions actually made in each of 2004 through 2013.

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TABLE 23 - HISTORY OF STATE CONTRIBUTIONS[1]

Fiscal Year	Amount Contributed[2]	Actuarially Required Contribution Per GASB 25	Percentage Contributed
2004[3]	9,176.96	2,656.36	345.47%
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%
2012	5,012.82	6,609.55	75.84%
2013	5,893.87	7,015.33	84.01%

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2013. Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2004 through June 30, 2012.

(1) In millions of dollars.

(2) Includes all State funds.

(3) 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 2013, the Retirement Systems had an aggregate UAAL of approximately $97.5 billion on a fair value basis and $100.5 billion on an actuarial basis (using the Asset Smoothing Method), resulting in respective Funded Ratios of 41.1% and 39.3%. Factors contributing to the increased UAAL from Fiscal Year 2012 to Fiscal Year 2013 include State contributions less than the Actuarially Required Contribution. The increase in the UAAL was decreased in part due to investment returns in excess of the Investment Rate of Return actuarially assumed by the Retirement Systems.

The following tables summarize the financial condition for Fiscal Years 2009 through 2013.

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TABLE 24
FINANCIAL CONDITION OF THE RETIREMENT SYSTEMS
FISCAL YEAR 2013
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$10,960,688	$36,516,825	$13,705,143	$52,744	$577,976	$61,813,376	$1,042,819
Income							
Member Contributions	$248,170	$921,422	$245,141	$1,451	$16,369	$1,432,553	$59,938
State and Employer Contributions	$1,531,932	$2,860,492	$1,401,481	$14,150	$88,240	5,896,295	$49,239
Investment Income	$1,501,238	$4,561,768	$1,694,772	$6,493	$76,886	7,841,157	$147,496
Total	$3,281,340	$8,343,682	$3,341,395	$22,094	$181,495	$15,170,006	$256,673
Expenditures							
Benefits and Refunds	$1,824,256	$4,981,481	$1,996,009	$20,151	$115,309	$8,937,206	39,726
Administration	$17,471	$20,258	$13,426	340	832	52,327	426
Total	$1,841,727	$5,001,739	$2,009,436	$20,491	$116,141	$8,989,534	$40,152
Ending Net Assets (Fair value)	$12,400,300	$39,858,768	$15,037,102	$54,347	$643,330	$67,993,847	$1,259,340
Actuarial Value of Assets	11,877,419	38,155,191	14,262,621	$51,850	$610,196	$64,957,277	N/A
Actuarial Accrued Liabilities	34,720,765	93,886,988	34,373,104	$320,462	$2,156,805	$165,458,124	N/A
UAAL (Fair Value)	22,320,465	54,028,220	19,336,002	266,115	1,513,475	$97,464,277	N/A
UAAL (Actuarial Value)[3]	22,843,346	55,731,797	20,110,483	268,612	1,546,609	$100,500,847	N/A
Funded Ratio (Fair Value)	35.7%	42.5%	43.7%	17.0%	29.8%	41.1%	N/A
Funded Ratio (Actuarial Value)[3]	34.2%	40.6%	41.5%	16.2%	28.3%	39.3%	N/A

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2013, and the Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2012
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".

(2) Reflects valuation of assets on a fair value basis as of June 30, 2012, 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".

TABLE 25
FINANCIAL CONDITION OF THE STATE RETIREMENT SYSTEMS
FISCAL YEAR 2012
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$10,970,753	$37,471,267	$14,274,003	$60,395	$605,960	$63,382,378	$960,538
Income							
Member Contributions	$259,123	$917,661	$258,236	$1,623	$16,445	$1,453,087	$54,122
State and Employer Contributions	1,391,416	2,561,259	985,815	10,502	63,644	5,012,636	45,924
Investment Income	5,975	224,107	9,067	(81)	(69)	238,999	16,659
Total	$1,656,515	$3,703,027	$1,253,118	$12,043	$80,020	$6,704,723	$116,705
Expenditures							
Benefits and Refunds	$1,650,874	$4,638,457	$1,808,811	$19,396	$107,240	$8,224,778	$34,035
Administration	15,706	19,012	13,167	298	764	48,947	389
Total	$1,666,579	$4,657,469	$1,821,978	$19,694	$108,004	$8,273,724	$34,424
Ending Net Assets (Fair value)	$10,960,688	$36,516,825	$13,705,143	$52,744	$577,976	$61,813,377	$1,042,819
Actuarial Value of Assets	11,477,264	37,945,397	13,949,905	56,090	601,220	64,029,876	N/A
Actuarial Accrued Liabilities	33,091,186	90,024,945	33,170,216	303,469	2,021,716	158,611,532	N/A
UAAL (Fair Value)	22,130,498	53,508,120	19,465,073	250,725	1,443,739	96,798,156	N/A
UAAL (Actuarial Value)[3]	21,613,922	52,079,548	19,220,311	247,379	1,420,496	94,581,656	N/A
Funded Ratio (Fair Value)	33.1%	40.6%	41.3%	17.4%	28.6%	39.0%	N/A
Funded Ratio (Actuarial Value)[3]	34.7%	42.1%	42.1%	18.5%	29.7%	40.4%	N/A

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2012, and the Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2011
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".

(2) Reflects valuation of assets on a fair value basis as of June 30, 2011, 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".

TABLE 26
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".

(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".

TABLE 27
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".

(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".

TABLE 28
FINANCIAL CONDITION OF THE 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".

(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".

Tables 29 and 30 present information as required by GASB 27 for Fiscal Years 2004 through 2013. Table 29 provides aggregate funding progress for the Retirement Systems. Table 30 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 ASSUMPTIONS - *NET PENSION OBLIGATION*" above.

TABLE 29 - SCHEDULE OF FUNDING PROGRESS(1)
FAIR VALUE OF ASSETS AND ACTUARIAL VALUE OF ASSETS

Fiscal Year	Fair Value of Assets(2)	Actuarial Accrued Liability	UAAL	Funded Ratio	Payroll	UAAL as a % of Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	([b-a]/c)
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	48,542.52	126,435.51	77,892.99	38.4%	16,606.60	469.0%
2010	53,225.10	138,794.30	85,569.20	38.3%	17,042.20	502.1%
2011	63,382.38	146,460.04	83,077.66	43.3%	17,061.93	486.9%
2012	61,813.38	158,611.53	96,798.16	39.0%	17,313.70	559.1%
2013	67,933.85	165,458.12	97,524.27	41.1%	17,356.74	561.9%

Fiscal Year	Actuarial Value of Assets(3)	Actuarial Accrued Liability	UAAL	Funded Ratio	Payroll	UAAL as a % of Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	([b-a]/c)
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%
2012	64,029.88	158,611.53	94,581.66	40.4%	17,313.70	546.3%
2013	64,957.28	165,458.12	100,500.84	39.3%	17,356.74	579.0%

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2004 through June 30, 2012 and Actuarial Valuations of the Retirement Systems as of June 30, 2013.

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

(2) Measures assets at fair value.

(3) 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*".

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TABLE 30 - NET PENSION OBLIGATION[1]

Fiscal Year	TRS	SURS	SERS	GARS	JRS	Total
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
2012	14,641.8	8,561.8	2,388.0	68.4	523.7	$26,183.7
2013	15,740.0	8,885.5	2,637.9	72.2	568.0	$27,903.7

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2004 through June 30, 2012 and Actuarial Valuations of the Retirement Systems as of June 30, 2013. Certain information related to Fiscal Year 2013 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 employer contributions below the Actuarially Required Contribution 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 the Actuarially Required Contribution 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 31 below. The UAAL increased from $35.1 billion at the end of Fiscal Year 2004 to $97.5 billion at the end of Fiscal Year 2013, an increase of $62.3 billion. No assurances can be given that the State will make the appropriations necessary to meet any deficiencies incurred by the Retirement Systems.

TABLE 31 - COMPONENTS OF CHANGE IN UNFUNDED LIABILITY(1)

Fiscal Year	Salary Increases/ (Decreases)	Investment Returns (Higher)/Lower Than Assumed(2)	Employer Contributions (Higher)/Lower than Normal Cost Plus Interest(3)(5)	Benefit Increases	Changes In Actuarial Assumptions	Other Factors(4)	Total Change in Unfunded Liability From Previous Year
2004	135.7	(3,841.8)	(4,689.8)	0.0	0.0	385.3	(8,010.6)
2005	35.1	(1,033.6)	2,431.5	0.0	26.4	2,048.3	3,507.8
2006	108.3	(1,843.1)	3,484.5	0.0	704.6	(323.2)	2,131.2
2007	314.9	(6,064.1)	3,321.0	0.0	2,735.2	1,138.3	1,445.2
2008	72.8	9,312.3	2,785.9	0.0	0.0	35.5	12,206.5
2009	(105.8)	3,831.9	3,231.3	0.0	0.0	1,097.7	8,055.2
2010	(421.9)	4,818.1	2,746.1	0.0	5,209.1	950.5	13,301.8
2011	(847.3)	2,667.2	3,666.0	0.0	581.3	1,098.7	7,166.0
2012	(1,294.5)	2,844.8	4,308.0	0.0	4,625.0	1,191.5	11,674.8
2013	(631.2)	2,398.7	3,353.0	0.0	71.3	727.3	5,919.1
Total	(2,633.8)	13,090.4	24,637.6	0.0	13,952.9	8,350.0	57,397.1

Source: Commission on Government Forecasting and Accountability, Report on the Financial Condition of the Illinois Retirement Systems: Financial Condition as of June 30, 2012. See RECENT REPORTS AND OTHER DEVELOPMENTS REGARDING THE RETIREMENT SYSTEMS - Report of the Commission on Government Forecasting and Accountability." Certain information for Fiscal Year 2013 was provided by the Retirement Systems.

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

(2) Investment returns beginning Fiscal Year 2009 based on Asset Smoothing Method.

(3) 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.

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

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

2010 LEGISLATION MODIFYING PENSION 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 ("PA 96-889"). PA 96-889 provided for significant reforms to the Retirement Systems, most notably by establishing a "two-tier" pension system resulting in reduced pension payments for 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, PA 96-889:

- Increased the minimum age at which an active employee may retire with unreduced pension payments 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 automatic annual increases ("AAIs"*)* 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 eliminated compounding for employees hired after January 1, 2011;
- Calculated pension payments 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;
- Limited the salary on which a pension may be calculated to $106,800 (subject to certain adjustments for inflation); and
- Suspended retirement annuities if the annuitant accepts another public sector job covered by a public retirement system.

PA 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 PA 96-889 are 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 PA 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 32 for the projected future Required Annual Statutory Contributions under the Statutory Funding Plan before and after enactment of PA 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, increasing the UAAL and decreasing the Funded Ratio.

Table 32 was prepared solely to compare projected Required Annual Statutory Contributions to the Retirement Systems prior to and after the enactment of PA 96-889. These projections were made as of June 30, 2010, immediately following the passage of PA 96-889, and do not reflect current projections of the Required Annual Statutory Contributions to the Retirement Systems. Table 32A 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, 2013, including the revised actuarial assumptions presented in Tables 20 and 21. Actual Required Annual Statutory Contributions to the Retirement Systems will vary from the projected amounts shown in both Table 32 and Table 32A. 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.

TABLE 32 – PROJECTIONS, AS OF THE PASSAGE OF PA 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 ma increase or decrease.

(2) Pursuant to Public Act 96-1511, the Retirement Systems recertified the Required Annual Statutory Contribution for fiscal year 201 Such recertification reduced the fiscal year 2011 Required Annual Statutory Contribution from $4.541 billion to $4.156 billion.

TABLE 32A - PROJECTED REQUIRED ANNUAL STATUTORY CONTRIBUTIONS TO THE RETIREMENT SYSTEMS (1)

Fiscal Year	Projected Required Annual Statutory Contributions
2014	$6,793
2015	$6,898
2016	$7,028
2017	$7,175
2018	$7,450
2020	$7,924
2025	$9,344
2030	$10,979
2035	$13,296
2040	$14,841
2045	$16,386

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2013. Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal year ended June 30, 2012.

(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 33 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.

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TABLE 33 - PROJECTION OF FUTURE FUNDING STATUS (1)

Fiscal Year	Actuarial Value of Assets[2]	Actuarial Accrued Liability	Unfunded Accrued Actuarial Liabilities (UAAL)	Funded Ratio
	(a)	(b)	(b-a)	(a/b)
2014	71,011.73	172,236.86	101,225.13	41.2%
2015	76,609.67	179,154.72	102,545.05	42.8%
2016	80,661.85	186,150.19	105,488.34	43.3%
2017	85,721.20	193,207.68	107,486.48	44.4%
2020	99,722.39	214,573.64	114,851.25	46.5%
2025	125,561.31	250,082.03	124,520.73	50.2%
2030	154,469.01	283,710.91	129,241.90	54.4%
2035	194,577.81	312,270.02	117,692.22	62.3%
2040	243,713.32	331,769.72	88,056.40	73.5%
2045	307,468.22	341,629.64	34,161.41	90.0%

Source: Compiled from the annual Actuarial Valuations of the Retirement Systems as of June 30, 2013.

(1) In millions of dollars.

(2) Measured in accordance with the Asset Smoothing Method. See discussion of Asset Smoothing Method under "ACTUARIAL METHODS - Actuarial Value of Assets".

RECENT REPORTS 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 website 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 "STATE OF ILLINOIS—WEBSITE INDEX." 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. On April 30, 2012, the resolution was amended to add a statement that any changes to the Pension Code must adhere to the "Pension Protection Clause" (Article 13, Section 5) of the Illinois Constitution. The resolution of the Board of Trustees, as amended, and information prepared by the Executive Director are available at the TRS website listed in "STATE OF ILLINOIS—WEBSITE INDEX."

2013 LEGISLATION MODIFYING PENSION STRUCTURE

On December 3, 2013, the General Assembly adopted the amended Senate Bill 1 ("SB 1"). The amendments to SB 1 embodied the report of a bipartisan Conference Committee that was comprised of five representatives and five senators. The Conference Committee was convened to recommend to the General Assembly proposals for pension reform, as set forth in its report. The Governor signed SB1 into law on December 5, 2013, as PA 98-0599. PA 98-0599 provides for changes to AAIs, retirement ages and employee contributions for four of the Retirement Systems – TRS, SERS, SURS and GARS (the "Affected Retirement System(s)"). PA 98-0599 does not make changes with respect to JRS, aside from using monies in the Pension Stabilization Fund (as described below) to fund contributions to JRS as well as the Affected Retirement Systems. PA 98-0599 becomes effective on June 1, 2014.

PA 98-0599 requires funding sufficient to allow the Affected Retirement Systems to reach a 100% Funded Ratio by the end of Fiscal Year 2044.

- For State Fiscal Year 2014, the minimum contribution by the State to each Affected Retirement System shall be an amount determined to be sufficient to bring the total assets of each respective Affected Retirement System up to 90% of the total actuarial liabilities of that Affected Retirement System by the end of State Fiscal Year 2045.
- For State Fiscal Years 2015 through 2044, the minimum State contribution to each Affected Retirement System to be made by the State for each fiscal year shall be an amount determined by the respective Affected Retirement System to be equal to the sum of (1) the State's portion of the projected normal cost for that fiscal year, plus (2) an amount sufficient to bring the total assets of that System up to 100% of its total actuarial liabilities by the end of Fiscal Year 2044.
- Beginning in Fiscal Year 2045, the Required Annual Statutory Contribution with respect to each of the Affected Retirement Systems for each fiscal year will be the amount needed to maintain the total assets of the respective Affected Retirement Systems at 100% of its total actuarial liabilities.

PA 98-0599 mandates that the State's contributions to each of the Affected Retirement Systems will continue to be calculated using the PUC Method for Fiscal Years 2014 and 2015. Beginning with Fiscal Year 2016, the State's contributions to the Affected Retirement Systems will be calculated using the EAN Method. See "—ACTUARIAL METHODS - *ACTUARIAL ACCRUED LIABILITY*" for additional information regarding the EAN Method.

PA 98-0599 also utilizes the Pension Stabilization Fund, a special fund in the State treasury, to hold funds for the purpose of making payments to the Affected Retirement Systems and JRS (the "Supplemental Payments"). Beginning in Fiscal Year 2016, and each year thereafter through 2045 or when each of the Affected Retirement Systems and JRS has achieved 100% funding, whichever occurs first, the State shall transfer to the Pension Stabilization Fund an amount equal to 10% of the annual savings resulting from the implementation of PA 98-0599 plus, beginning in Fiscal Year 2019, the cash flow currently dedicated to the 2010 and 2011 pension bonds ($364 million in Fiscal Year 2019 and $1 billion per year thereafter). Such amounts within the Pension Stabilization Fund will be transferred to the individual Affected Retirement Systems; however, amounts transferred to an Affected Retirement System from the Pension Stabilization Fund do not constitute the payment of a Required Annual Statutory Contribution and are not permitted to reduce the amount of the Required Annual Statutory Contribution otherwise calculated under law. The Comptroller shall apportion the deposited amount among the Affected Retirement Systems and JRS. At the request of the Comptroller, the GOMB shall determine the individual System and aggregate actuarial reserve deficiencies of the Affected Retirement Systems.

PA 98-0599 also creates a mechanism to enforce funding of State contributions to the Retirement Systems. Beginning July 1, 2014, the State shall be obligated to contribute to the Retirement Systems an amount not less than the sum of (i) the State's normal cost for the year, and (ii) the portion of the unfunded accrued liability assigned to that year by law, in addition to the amounts required to be transferred by the State into the Pension Stabilization Fund described above. To the extent that the State fails to pay these amounts, each Affected Retirement System will be obligated to file a mandamus action with the Illinois Supreme Court to compel payment of such deficiency. Pursuant to PA 98-0599, the State waives its sovereign immunity with respect to the filing of these mandamus actions. Notwithstanding this right of enforcement, PA 98-0599 provides that enforcement of these payments to the Retirement Systems is expressly subordinate to the payment of the principal, interest and premium, if any, on the following debt obligations, including statutory fund transfers or other prefunding mechanisms, as described in SB1: "any bonded debt obligation of the State or any other State-created entity, either currently outstanding or to be issued."

Other reforms applicable to employees hired before January 1, 2011, that are included in PA 98-0599 include the following:

- Annual AAIs are capped, and the method of calculation is modified. All automatic AAIs shall be calculated as 3% of the lesser of (1) the total annuity payable at the time of the increase, including previous increases granted, or (2) $1,000 multiplied by the number of years of creditable service upon which the annuity is based for members of the Affected Retirement Systems who are not coordinated with Social Security, and $800 multiplied by the number of years of creditable service for members of the Affected Retirement Systems who are coordinated with Social Security. Beginning in Fiscal Year 2016, the $1,000/$800 figure shall be adjusted annually based on increases in the Consumer Price Index.

- Certain annual AAIs will be "skipped" upon retirement for employees who have not begun to receive a retirement annuity before July 1, 2014. The number of skips depends upon the age of the employee on the effective date of PA 98-0599, ranging from one skipped year for those 50 years and older to five skipped years for those under 44 years old. Multiple years will be skipped on a staggered basis.

- The retirement age required to receive full payments is increased for employees who begin receiving a retirement annuity on or after July 1, 2014, based on the age of such employees on June 1, 2014. The increases in required retirement age range depending on the employee's age, e.g., a 60-month increase for employees under the age of 32 to no increase for employees aged 46 and over.

- "Pensionable salary" (i.e., the salary amount that is used when calculating pension payments) is capped at $106,800, adjusted annually by the lower of (i) 3% or (ii) the annual change in CPI. (This amount was $109,971 in 2013.)

- Current employees will be afforded a 1% reduction in annual required employee contributions.

- A voluntary defined contribution plan is established for up to 5% of eligible active participant employees. Defined contribution plan participants shall contribute at the same rate as non-participant employees.

- Employees who become members of an Affected Retirement System after the effective date of PA 98-0599 will not receive credit for unused sick leave or vacation time in calculating their maximum salary for pension payments.

- The Affected Retirement Systems may not use any contribution received pursuant to the provisions of SB1 to provide a subsidy for the cost of participation in a retiree health care program.

Taken independently of any other factors, the reforms reflected in PA 98-0599 are expected to reduce the growth of the Actuarial Accrued Liability and the UAAL. However, several of the assumptions underlying the determination of the Required Annual Statutory Contribution, the Actuarial Accrued Liability, the Funded Ratio and the UAAL are likely to fluctuate over time. See "—DETERMINATION OF EMPLOYER CONTRIBUTIONS," "—ACTUARIAL METHODS," "—HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS," "—FUNDED STATUS," and "—PROJECTION OF FUNDED STATUS" above.

By statute, each of the Retirement Systems must submit a final Actuary Report and certify the State contribution for the following Fiscal Year by January 15, 2015 (and for future fiscal years by January 1) of the preceding fiscal year. Commencing January 15, 2015, the Affected Retirement Systems must also calculate and certify the State contribution as if PA 98-0599 had not taken effect (in order to determine the portion of savings attributable to that fiscal year to be transferred into the Pension Stabilization Fund).

Lawsuits have been filed in Cook County and Sangamon County challenging the constitutionality of PA 98-0599, and the State expects further such lawsuits to be filed. See "LITIGATION—PENSION REFORM LITIGATION." The effectiveness of the reforms included in PA 98-0599 may be delayed during the pendency of this litigation, even if the legislation is ultimately upheld. The State can provide no assurance as to the timing of the final rulings in these lawsuits, their outcome, or the impact on the State's financial condition of any rulings in these lawsuits. Should PA 98-0599 be declared unconstitutional or otherwise invalid, the State's financial condition would be materially worse than the State's anticipated financial condition if PA 98-0599 is upheld and its reforms implemented.

Tables 34, 34A and 34B that follow contain financial projections on the impact of PA 98-0599. The projections are limited to the three largest Retirement Systems only: SERS, SURS, and TRS; GARS and JRS were not included given their small size. The projections were provided by these Affected Retirement Systems and generated by their respective actuaries and assume full enactment of PA 98-0599, including the Supplemental Payments. Such projections are based on a set of actuarial assumptions in effect as of the date of calculation.

In connection with these projections, please note that the State has not independently verified these results and makes no representation as to their accuracy. The State can provide no assurances that actual results will be equal to these projections. Actual results will vary from these projections if there are changes to the actuarial assumptions at a later date and if actual experience varies either positively or negatively from the assumptions utilized in these projections or changes in any other meaningful way.

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TABLE 34 - PROJECTED FUNDED RATIOS[1][2]

FISCAL YEAR	SERS FUNDED RATIO		SURS FUNDED RATIO		TRS[3] FUNDED RATIO	
	CURRENT	PA 98-0599	CURRENT	PA 98-0599	CURRENT	PA 98-0599
2014	43.63%	49.54%	36.09%	40.87%	42.60%	49.20%
2015	45.30%	52.03%	37.85%	43.14%	44.00%	51.40%
2016	45.79%	52.66%	38.89%	43.33%	44.40%	51.60%
2017	46.75%	53.83%	40.27%	44.99%	45.30%	52.30%
2018	47.36%	54.60%	41.29%	46.22%	46.00%	52.70%
2019	47.91%	55.55%	42.26%	47.63%	46.60%	53.40%
2020	48.43%	56.85%	43.18%	49.36%	47.30%	54.40%
2021	48.94%	58.20%	44.08%	51.09%	48.00%	55.50%
2022	49.44%	59.62%	44.94%	52.83%	48.70%	56.70%
2023	49.94%	61.12%	45.78%	54.59%	49.50%	58.00%
2024	50.44%	62.73%	46.59%	56.38%	50.30%	59.40%
2029	53.52%	73.05%	50.61%	66.51%	55.50%	68.70%
2034	58.74%	89.31%	56.12%	81.10%	62.70%	83.10%
2039	68.30%	100.00%	66.82%	100.00%	72.90%	100.00%
2044	85.38%	100.00%	85.09%	100.00%	86.60%	102.90%

(1) Information provided by SERS, SURS and TRS.
(2) Ratios include the effect of Supplemental Payments.
(3) In the TRS and SURS projections set forth in this Table and Table 34B, the Actuarial Accrued Liability was calculated using the EAN Method instead of the PUC Method for Fiscal Years 2014 and 2015. This resulted in the Actuarial Accrued Liability being greater in each of Fiscal Years 2014 and 2015, with a corresponding increase in the UAAL and a corresponding decrease in the Funded Ratio for each of TRS and SURS. With respect to TRS, the Actuarial Accrued Liability is approximately $3 billion greater in each of Fiscal Years 2014 and 2015, with a corresponding increase in the UAAL of approximately $3 billion in each year and a corresponding decrease in the Funded Ratio of approximately 1.8% and 2.0%, respectively. With respect to SURS, the Actuarial Accrued Liability is approximately $825 million greater in each of Fiscal Years 2014 and 2015, with a corresponding increase in the UAAL of approximately $825 million in each year and a corresponding decrease in the Funded Ratio of approximately 1.3% and 1.4%, respectively. The State's contributions to TRS and SURS for Fiscal Years 2014 and 2015 were calculated using the PUC Method. As a result, such contributions were not affected by use of the EAN Method in calculating the Actuarial Accrued Liability for such Fiscal Years.

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TABLE 34A - PROJECTED REDUCTION IN CONTRIBUTIONS(1)(2)(3)(4)(5)

	TOTAL CONTRIBUTION		
FISCAL YEAR	CURRENT	PA 98-0599	REDUCTION IN CONTRIBUTIONS
2014	$6,603	$6,603	$ -
2015	6,693	6,693	-
2016	6,827	5,645	1,182
2017	6,971	5,705	1,266
2018	7,242	5,856	1,386
2019	7,458	6,282	1,176
2020	7,711	6,995	716
2021	7,978	7,153	824
2022	8,248	7,316	932
2023	8,539	7,489	1,050
2024	8,821	7,664	1,157
2029	10,419	8,639	1,780
2034	12,700	9,817	2,884
2039	14,219	1,185	13,034
2044	15,681	578	15,104
Total			$144,890

(1) In millions of dollars.
(2) Information provided by SERS, SURS and TRS.
(3) Total includes years not displayed.
(4) Contributions shown include Supplemental Payments.
(5) In the TRS and SURS projections set forth in Table 34 and Table 34B, the Actuarial Accrued Liability was calculated using the EAN Method instead of the PUC Method for Fiscal Years 2014 and 2015. This resulted in the Actuarial Accrued Liability being greater in each of Fiscal Years 2014 and 2015, with a corresponding increase in the UAAL and a corresponding decrease in the Funded Ratio for each of TRS and SURS. With respect to TRS, the Actuarial Accrued Liability is approximately $3 billion greater in each of Fiscal Years 2014 and 2015, with a corresponding increase in the UAAL of approximately $3 billion in each year and a corresponding decrease in the Funded Ratio of approximately 1.8% and 2.0%, respectively. With respect to SURS, the Actuarial Accrued Liability is approximately $825 million greater in each of Fiscal Years 2014 and 2015, with a corresponding increase in the UAAL of approximately $825 million in each year and a corresponding decrease in the Funded Ratio of approximately 1.3% and 1.4%, respectively. The State's contributions to TRS and SURS for Fiscal Years 2014 and 2015 were calculated using the PUC Method. As a result, such contributions were not affected by use of the EAN Method in calculating the Actuarial Accrued Liability for such Fiscal Years.

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TABLE 34B - PROJECTED REDUCTION IN UNFUNDED ACCRUED LIABILITY[(1)(2)(3)(4)]

FISCAL YEAR	TOTAL UNFUNDED LIABILITY CURRENT	PA 98-0599	REDUCTION IN UNFUNDED LIABILITY
2014	$99,398	$77,738	$21,660
2015	100,707	76,410	24,297
2016	103,640	78,446	25,195
2017	105,623	78,746	26,877
2018	108,116	79,507	28,609
2019	110,573	79,884	30,689
2020	112,951	79,515	33,436
2021	115,203	78,914	36,289
2022	117,337	78,050	39,287
2023	119,286	76,895	42,390
2024	121,052	75,398	45,654
2029	125,738	62,055	63,684
2034	119,575	34,574	85,000
2039	94,473	-	94,473
2044	46,747	(4,380)	51,127

(1) In millions of dollars.
(2) Information provided by SERS, SURS and TRS.
(3) Includes effect of Supplemental Payments.
(4) In the TRS and SURS projections set forth in this Table and Table 34, the Actuarial Accrued Liability was calculated using the EAN Method instead of the PUC Method for Fiscal Years 2014 and 2015. This resulted in the Actuarial Accrued Liability being greater in each of Fiscal Years 2014 and 2015, with a corresponding increase in the UAAL and a corresponding decrease in the Funded Ratio for each of TRS and SURS. With respect to TRS, the Actuarial Accrued Liability is approximately $3 billion greater in each of Fiscal Years 2014 and 2015, with a corresponding increase in the UAAL of approximately $3 billion in each year and a corresponding decrease in the Funded Ratio of approximately 1.8% and 2.0%, respectively. With respect to SURS, the Actuarial Accrued Liability is approximately $825 million greater in each of Fiscal Years 2014 and 2015, with a corresponding increase in the UAAL of approximately $825 million in each year and a corresponding decrease in the Funded Ratio of approximately 1.3% and 1.4%, respectively. The State's contributions to TRS and SURS for Fiscal Years 2014 and 2015 were calculated using the PUC Method. As a result, such contributions were not affected by use of the EAN Method in calculating the Actuarial Accrued Liability for such Fiscal Years.

SEC ORDER

The State was originally contacted in September 2010 by the Securities and Exchange Commission (the "SEC") regarding a non-public inquiry into communications by the State relating to the financial effects of PA 96-889 on Illinois public pensions, including communications relating to the potential savings or reductions in contributions by the State to the Illinois public pensions. The SEC inquiry ultimately turned to disclosures relating to the Statutory Funding Plan.

On March 11, 2013, the SEC instituted administrative proceedings and imposed a cease-and-desist order (the "Order"). The Order can be found on the State's Capital Markets website and the Electronic Municipal Market Access website. See "STATE OF ILLINOIS—WEBSITE INDEX." In its Order, the SEC found that, between 2005 and March 2009, the State acted negligently and (i) misled bond investors by omitting to disclose information about the adequacy of the Statutory Funding Plan and the risks created by the State's structural underfunding of its pension obligations, (ii) misled bond investors about the effect of changes to the Statutory Funding Plan, including the State's failure to make the full pension contributions in 2006 and 2007 and (iii) omitted to disclose material information, which rendered certain statements misleading to bond investors regarding the State's ability to fund its pension obligations or the impact of the State's pension obligations on the State's financial condition. In agreeing to the Order, the State did not admit or deny the SEC's findings in the Order. Under the terms of the Order, the State was not required to pay any civil fines or penalties, and the SEC noted that it considered the State's cooperation during the inquiry as well as the remedial measures, described in the Order, instituted by the State to ensure compliance with its disclosure obligations under the federal securities laws.

Prior to the SEC inquiry and in response to statements made by the SEC in an enforcement action against the State of New Jersey (SEC Rel. No. 9135, August 18, 2010), the State engaged outside counsel 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 and has continued to engage Disclosure Counsel to assist the State in continuing to update certain 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 pension disclosure in an official statement or at the time of an update as mandated in the policies and procedures, the pension 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.

This subsection describes the policies and procedures used by the State to review, evaluate and enhance its pension disclosure. For information regarding the State's general policies and procedures for reviewing, updating and maintaining information in the State's official statements, see "CERTIFICATE OF THE DIRECTOR OF THE GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET."

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 State 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") administered these benefits for annuitants with the assistance of the Retirement Systems. Following the amendment of the Illinois Administrative Procedure Act (PA 097-0695) the administrative responsibilities have been transitioned completely to CMS.

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 Procedures Act, the director of CMS is empowered to 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." GASB Statement No. 45 requires the calculation of the OPEB 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 OPEB 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.

TABLE 35
NET OTHER POST EMPLOYMENT BENEFITS OBLIGATION FISCAL YEAR 2012[1]
($ IN THOUSANDS)

Actuarially Required Contribution (Net of ARC adjustments)	$ 2,206,190
Plus: Interest on Net OPEB Obligations	257,236
Annual OPEB Cost	2,463,426
Benefits paid during the year	777,372
Increase in Net OPEB Obligations	1,686,054
Net OPEB Obligations at June 30, 2011	5,614,025
Net OPEB Obligations at June 30, 2012	$ 7,300,079

[1]Based on information in the State CAFR.

TABLE 35A

NET OTHER POST EMPLOYMENT BENEFITS - FISCAL YEARS 2008-2012[1]

($ IN MILLIONS)

	2008	2009	2010	2011	2012
Annual Required Contribution[2]	$1,776	$1,840	$1,937	$2,339	2463.4
Benefits paid during the year	538	604	532	501	777
Increase in Net OPEB Obligations	1,238	1,236	1,405	1,838	1,686
Net OPEB Obligations Balance	1,238	2,474	3,879	5,716	7,300

[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 ACCRUED 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.

*Estimation in the succeeding year's report.

Note: the GASB No. 45 Actuarial Valuation Report is produced every other year; there will be a full valuation reporting on FY2013.

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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:

PENSION REFORM LITIGATION

On December 5, 2013, the Governor signed into law PA 98-0599 (effective June 1, 2014), a law amending the Illinois Pension Code. The law made changes to the Illinois Pension Code, including: (1) changing the retirement age for certain future retirees; (2) changing the Automatic Annual Adjustment ("AAI") formula for retirees; (3) mandating that retirees skip certain AAIs; (4) imposing a salary cap on the income used to calculate certain retirees' annuities; and (5) reducing the amount that some current State employees contribute for their pension.

Several groups have filed lawsuits challenging the constitutionality of PA 98-0599. In December 2013, retired members of TRS filed the first lawsuit in Cook County seeking a court declaration that P.A. 98-0599 violates the Illinois Constitution. *Heaton, et al v. Quinn, et al.*, No. 2013 CH 28406 (Cook County). Other groups have filed similar lawsuits on behalf of retired members of TRS, retired members of SERS, retired members of SURS, and retired members of GARS. See *Illinois State Employees Association Retirees, et al. v. The Board of Trustees of the State Employees' Retirement System of Illinois*, No. 2014 CH 000003 (Sangamon County); *Retired State Employees Association, et al. v. Quinn, et al.*, No. 2014 MR 000001 (Sangamon County); and *Harrison, et al. v. Quinn, et al.*, No. 2014 CH 00040 (Sangamon County). These lawsuits seek an injunction preventing the State from fully implementing PA 98-0599 in addition to declaratory relief. Each lawsuit seeks class certification.

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 moneys 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 January 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 January 2005, the IWCC has on a regular basis requested and the Circuit Court of Cook County has released moneys 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 moneys from the funds at issue, pending further consideration of the matters.

In January 2008, in the property and casualty insurance case, the Sangamon County Circuit 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. The State's motion for summary judgment was granted on August 27, 2013. A Notice of Appeal was filed by plaintiffs on September 26, 2013. Finally, in the real estate sales' litigation, the State's motion to dismiss was argued before the Sangamon County Circuit Court on October 26, 2012. The motion to dismiss was granted on January 18, 2013. Plaintiffs subsequently filed a Notice of Appeal and a motion to stay enforcement of judgment pending appeal. The motion is pending.

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 in 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.

In May 2011, a plaintiff class sued a defendant class of all County Recorders of Deeds in Illinois challenging the imposition of a surcharge for the recordation of any real estate-related document. The surcharges were submitted to the Department of Revenue, which deposited the money in the Rental

Housing Support Program Fund. The State intervened to defend the statute. The circuit court granted plaintiffs' motions for summary judgment on the prior and current versions of the statute requiring the surcharges on April 3, 2013 and September 25, 2013, and Notices of Appeal to the Illinois Supreme Court were filed from those orders on May 3, 2013 and October 18, 2013. The parties intend to ask the Supreme Court to consolidate the cases for briefing and decision.

In October 2012, a plaintiff class sued a defendant class of Circuit Court Clerks challenging the imposition of a surcharge on the filing of a mortgage foreclosure complaint. Under the version of the statute at issue, the clerk collected the fee and submitted most of it to the State Treasurer for deposit into the Foreclosure Prevention Program Fund. The Fund was administered by the Illinois Housing Development Authority to make grants to counseling and community agencies. The State intervened to defend the statute. On November 8, 2013, the circuit court granted plaintiffs' motion for partial summary judgment finding the statute unconstitutional.

RATINGS

S&P has assigned a rating of "A-" with a Developing Outlook to the Bonds, Moody's has assigned a rating of "A3" with a Negative Outlook to the Bonds and Fitch has assigned a rating of "A-" with a Negative Outlook to the Bonds.

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 in this Official Statement, 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.

UNDERWRITING

Under the terms of a Contract of Purchase with the State, the underwriters set forth on the cover of this Official Statement (the *"*Underwriters*"*) will agree, subject to the approval of certain legal matters by counsel and to certain other conditions, to purchase the Bonds at a price of $1,074,806,527.18, representing the par amount of the Bonds plus a net original issue premium of $54,033,920.00, less the Underwiters' discount of $4,227,392.82. The Underwriters will agree to purchase all of the Bonds if any of the Bonds are purchased. The Underwriters have agreed to make a bona fide pubic offering of the Bonds at not in excess of the public offering prices set forth on the inside front cover page of this Official Statement.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

TAX MATTERS

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

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

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

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

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

The issue price (the "Issue Price") for each maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page hereof.

If the Issue Price of a maturity of the Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of the Bonds (the "OID Bonds") and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the State complies with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Based upon the stated position of the Illinois Department of Revenue under Illinois income tax law, accreted original issue discount on such OID Bonds is subject to taxation as it accretes, even though there may not be a corresponding cash payment until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors.

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

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

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

The Service has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service may treat the State as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

Interest on the Bonds is not exempt from present State of Illinois income taxes. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Co-Bond Counsel express no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

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 SEC under the Securities Exchange Act of 1934, as amended. The proposed form of the Undertaking is included as APPENDIX D to this Official Statement.

In the previous five years, the State has complied, in all material respects, with its continuing disclosure undertakings. The State has filed its "Annual Financial Information" within the time periods prescribed in its various continuing disclosure undertakings. During the last five years, the State's Comprehensive Annual Financial Report ("Audited Financial Statements") has not been available when the Annual Financial Information has been filed, but has been filed within 30 days after its availability to GOMB.

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. 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

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinions of Chapman and Cutler LLP, Chicago, Illinois ("Chapman"), and Burke Burns & Pinelli, Ltd., Chicago, Illinois, Co-Bond Counsel, who act as Co-Bond Counsel to the State. Co-Bond Counsel make no representation as to the suitability of the Bonds for investment by any investor. The opinions of Co-Bond Counsel will accompany the delivery of the Bonds and be in substantially the form included in this Official Statement as APPENDIX B. Chapman has also been retained by the State to serve as Disclosure Counsel to the State with respect to the Bonds. Although as Disclosure Counsel to the State, Chapman has assisted the State with certain disclosure matters, Chapman has not undertaken to independently verify the accuracy, completeness or fairness of this Official Statement or other offering material related to the Bonds and does not guarantee the accuracy, completeness or fairness of such information. Chapman's engagement as Disclosure Counsel was undertaken solely at the request and for the benefit of the State, to assist it in discharging its responsibility with respect to this Official Statement, and not for the benefit of any other person (including the Underwriters and any person purchasing Bonds from the Underwriters), and did not include any obligation to establish or confirm factual matters, forecasts, projections, estimates or any other financial or economic information in connection therewith. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock, LLP, Chicago, Illinois ("Kutak Rock"). The State has designated Kutak Rock as Underwriters' Counsel. The fees of Co-Bond Counsel, Disclosure Counsel and Underwriters' Counsel for services rendered with respect to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds.

AUDITED FINANCIAL STATEMENTS

The State Auditor General has performed an audit of the basic financial statements that accompany each CAFR in accordance with generally accepted auditing standards in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. His unqualified opinion appears at the beginning of the financial section of each CAFR. The State Auditor General has not been requested to update the information contained in the financial statements in the Fiscal Year 2012 CAFR which has been filed with EMMA and is referred to in "STATE FINANCIAL INFORMATION."

FINANCIAL ADVISOR

Peralta Garcia Solutions, Chicago, Illinois ("Peralta Garcia") has been retained by the State to serve as Financial Advisor with respect to the Bonds. Peralta Garcia 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 in this Official Statement 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 of GOMB will provide to the Underwriters at the time of delivery of the Bonds a certificate confirming that, to the best of his knowledge, the Official Statement was, as of its date, and is, at the time of such delivery, true and correct in all material respects and did not and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

The Director's certificate will be based on formal, written policies and procedures for reviewing, updating and maintaining information in the State's official statements. In these written policies and procedures, among other things, the State established a committee within the GOMB consisting of GOMB employees (the "Official Statement Disclosure Committee") to oversee the review and updating of official statements (other than the pension disclosure, which is covered by a separate policy described in "PENSION SYSTEMS—PENSION DISCLOSURE POLICIES AND PROCEDURES".) The GOMB Director of Capital Markets serves as chairperson and a member of the Official Statement Disclosure Committee, and the General Counsel of the GOMB serves as an ex-officio member. Members of the Official Statement Disclosure Committee coordinate with the Attorney General of the State and the Comptroller with respect to information relating to their respective offices.

MISCELLANEOUS

Additional information regarding the Bonds and this Official Statement is available by contacting the Governor's Office of Management and Budget, 100 W. Randolph St., Suite 15-100, Chicago, Illinois 60606; telephone: (312) 814-7279.

The State has authorized the distribution of this Official Statement.

This Official Statement has been duly executed and delivered by the Acting Director of GOMB on behalf of the State.

STATE OF ILLINOIS

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

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 second 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, third 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	2012
United States	$ 43,633	$ 43,079	$ 41,640	$ 42,346	$ 42,070	$ 42,784
Illinois	46,593	45,970	44,565	45,258	45,231	46,151
Great Lakes Region	40,617	39,786	38,258	39,175	38,722	39,919

Source: U.S. Department of Commerce, Bureau of Economic Analysis, October data as of January 2014

TABLE A-2
PAYROLL JOBS BY INDUSTRY, SEASONALLY ADJUSTED
(Thousands)

Industry Employment Sector	Illinois	% of Total	U.S.	% of Total
Financial Activities	372	6.4%	7,910	5.8%
Manufacturing	577	9.9%	11,988	8.8%
Trade, Transportation and Utilities	1,173	20.1%	26,150	19.1%
Leisure and Hospitality	546	9.4%	14,262	10.4%
Education and Health Services	879	15.1%	20,782	15.2%
Mining, Logging, Information and Other Services	369	6.3%	9,064	6.6%
Government	829	14.2%	21,847	16.0%
Professional and Business Services	901	15.5%	18,729	13.7%
Construction	182	3.1%	5,830	4.3%
Total	**5,828**	**100.0%**	**136,562**	**100.0%**

Source: U.S. Department of Labor, Bureau of Labor Statistics, October data as of January 2014

TABLE A-3
NON-AGRICULTURE PAYROLL JOBS BY INDUSTRY
ILLINOIS – 2008 THROUGH JULY 2013
(Thousands)

Industry Employment Sector	2008	2009	2010	2011	2012	2013
Total Non-Agricultural Employment	5,994	5,806	5,588	5,651	5,726	5,828
Financial Activities	397	381	364	364	367	372
Manufacturing	671	621	554	569	599	577
Trade, Transportation and Utilities	1,219	1,172	1,120	1,135	1,145	1,173
Leisure and Hospitality	534	524	513	518	534	546
Educational and Health Services	791	812	823	844	866	879
Mining, Logging, Information & Other Services	388	381	369	360	345	369
Government	854	857	857	842	827	829
Professional and Business Services	873	822	786	820	864	901
Construction	266	236	203	199	180	182

Source: U.S. Department of Labor, Bureau of Labor Statistics, October data as of January 2014

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 2007 to 2011.

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

	2007	2008	2009	2010	2011	2012
Crops	$10,662	$13,077	$13,098	$13,713	$17,220	$17,034
Livestock	2,112	2,121	1,851	2,269	2,600	2,616
Total	**$12,774**	**$15,197**	**$14,949**	**$15,983**	**$19,820**	**$19,650**

Source: U.S. Department of Agriculture-Economic Research Service, current data as of January 2014

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TABLE A-5
AGRICULTURAL EXPORTS
FEDERAL FISCAL YEAR 2011
($ in Millions)

Agricultural Exports	U.S. Total	Illinois Share	% of U.S.	Rank
All Commodities	$ 136,374	$ 8,238	6.0%	3
Feeds	$ 5,745	$ 1,019	17.7%	2
Grain Products	$ 4,098	$ 474	11.6%	2
Soybeans	$ 17,563	$ 2,515	14.3%	2

Source: U.S. Department of Agriculture-Economic Research Service, current data as of January 2014

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Personal Income

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

TABLE A-6
PERSONAL INCOME
($ in Billions)

	2007	2008	2009	2010	2011	2012
Illinois	533	555	525	540	563	590
United States	11,912	12,460	11,930	12,373	12,950	13,729

Source: U.S. Department of Labor, Bureau of Labor Statistics, September data as of January 2014

TABLE A-7
PER CAPITA PERSONAL INCOME

	2007	2008	2009	2010	2011	2012	2012 Rank
Illinois	41,950	43,502	40,865	42,025	43,721	45,832	15
United States	39,506	40,947	38,637	39,791	41,560	43,735	--
Ten Most Populous States:*							
New York	47,852	49,408	46,739	49,119	51,126	53,241	1
California	43,211	44,003	41,034	41,893	43,647	46,477	2
Illinois	41,950	43,502	40,865	42,025	43,721	45,832	**3**
Pennsylvania	38,927	40,674	39,210	40,444	42,291	45,083	4
Texas	37,098	39,615	36,595	38,222	40,147	42,638	5
Florida	39,256	39,978	36,849	38,345	39,636	41,012	6
Ohio	35,183	36,401	35,001	35,931	37,836	40,057	7
Michigan	34,419	35,288	33,221	34,326	36,264	38,291	8
North Carolina	34,761	35,741	34,001	34,604	36,028	37,910	9
Georgia	35,369	35,857	33,887	34,531	35,979	37,449	10
Great Lakes States:							
Illinois	41,950	43,502	40,865	42,025	43,721	45,832	**1**
Iowa	36,831	38,172	36,859	38,010	39,575	43,935	2
Wisconsin	35,183	36,401	35,001	35,931	37,836	42,121	3
Michigan	34,419	35,288	33,221	34,326	36,264	38,291	4
Indiana	33,645	34,894	33,163	34,028	35,689	38,119	5

Source: U.S. Department of Commerce, Bureau of Economic Analysis, September data as of January 2014

Employment

TABLE A-8
NUMBER OF UNEMPLOYED

	2008	2009	2010	2011	2012	2013
United States	8,924,000	15,142,000	14,876,000	12,613,000	12,042,000	11,140,000
Illinois	433,700	674,692	620,983	627,586	574,902	579,326
Bloomington-Normal MSA	4,573	6,495	7,201	6,320	5,643	6,042
Champaign-Urbana MSA	6,929	9,987	11,038	9,400	8,430	8,924
Chicago PMSA	303,175	487,453	496,036	465,543	405,055	402,003
Danville-MSA	2,971	4,201	4,547	3,617	3,533	4,062
Davenport-Moline-Rock Island MSA	10,772	15,884	17,127	14,846	12,705	13,258
Decatur MSA	3,825	6,166	6,502	5,406	5,547	5,993
Kankakee MSA	4,803	6,746	7,511	6,342	5,720	5,517
Peoria-Pekin MSA	11,296	20,850	20,812	16,483	14,099	16,958
Rockford MSA	15,347	25,332	26,830	20,149	17,672	16,982
Springfield MSA	6,568	8,390	9,433	8,699	8,097	7,937

Source: U.S. Department of Labor, Bureau of Labor Statistics Data, October data as of January 2014

TABLE A-9
UNEMPLOYMENT RATE (%)

	2008	2009	2010	2011	2012	2013
United States	5.8	10.0	9.7	8.2	7.8	7.2
Illinois	6.5	10.1	9.8	9.4	8.7	8.9
Bloomington-Normal MSA	5.1	7.2	7.5	6.8	6.1	6.9
Champaign-Urbana MSA	5.7	8.3	9.0	7.8	7.2	7.7
Chicago PMSA	6.2	10.0	10.2	9.6	8.3	8.3
Danville MSA	8.2	11.5	12.1	9.9	9.9	11.3
Davenport-Moline-Rock Island	5.2	8.1	8.4	7.3	6.4	6.7
Decatur MSA	7.2	11.4	11.8	9.9	10.2	11.8
Kankakee MSA	8.8	12.1	13.1	10.8	10.0	10.1
Peoria-Pekin MSA	5.7	10.4	10.2	7.9	7.7	8.7
Rockford MSA	9.1	15.0	15.3	11.9	10.5	10.5
Springfield MSA	5.9	7.4	8.0	7.4	6.9	7.1

Source: U.S. Department of Labor, Bureau of Labor Statistics Data, October data as of January 2014

Population

Illinois is the nation's fifth most populous state. The State's population is approximately 12.9 million according to the U.S. Bureau of the Census for calendar year 2012.

TABLE A-10
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, data current as of January 2014.

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APPENDIX B

FORM OF APPROVING OPINIONS OF CO-BOND COUNSEL

[LETTERHEAD OF RESPECTIVE CO-BOND COUNSEL]

[TO BE DATED CLOSING DATE]

We hereby certify that we have examined a certified copy of the proceedings (the *"Proceedings"*) of the Governor of the State of Illinois (the *"State"*) and the Acting Director of the Governor's Office of Management and Budget of the State authorizing the issue by the State of its fully registered $1,025,000,000 General Obligation Bonds, Series of February 2014 (the *"Bonds"*), dated the date hereof. The Bonds mature on February 1 of each of the years, in the amounts and bear interest as follows:

YEAR OF MATURITY	PRINCIPAL AMOUNT	RATE OF INTEREST	YEAR OF MATURITY	PRINCIPAL AMOUNT	RATE OF INTEREST
2015	$41,000,000	1.00%	2024	$ 5,000,000	4.00%
2016	41,000,000	3.00%	2024	36,000,000	5.00%
2017	20,000,000	3.00%	2025	41,000,000	5.00%
2017	21,000,000	4.00%	2026	41,000,000	5.00%
2018	41,000,000	4.00%	2027	41,000,000	5.00%
2019	20,000,000	4.00%	2028	41,000,000	5.25%
2019	21,000,000	5.00%	2029	10,000,000	4.50%
2020	5,000,000	4.00%	2029	31,000,000	5.25%
2020	36,000,000	5.00%	2030	41,000,000	5.25%
2021	5,000,000	4.00%	2031	41,000,000	5.25%
2021	36,000,000	5.00%	2032	41,000,000	5.25%
2022	5,000,000	4.00%	2033	41,000,000	5.25%
2022	36,000,000	5.00%	2034	41,000,000	5.25%
2023	5,000,000	4.00%	2039	205,000,000	5.00%
2023	36,000,000	5.00%			

The Bonds due on or after February 1, 2025, with the exception of Bonds maturing on February 1, 2028, are subject to redemption prior to maturity at the option of the State as a whole, or in part in integral multiples of $5,000 from such maturities and interest rates as may be selected by the State (less than all of the Bonds of a single maturity and interest rate to be selected by the Bond Registrar), on February 1, 2024 or on any date thereafter, at the redemption price of par plus accrued interest to the redemption date.

The Bonds maturing on February 1, 2028 are subject to redemption prior to maturity at the option of the State as a whole, or in part in integral multiples of $5,000 (less than all of the Bonds maturing on said date to be selected by the Bond Registrar), on February 1, 2019 or on any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption.

The Bonds due on February 1, 2039, are also subject to mandatory redemption, in integral multiples of $5,000 selected by lot by the Bond Registrar, at a redemption price of par plus accrued interest to the redemption date, on February 1 of the years and in the principal amounts as follows:

YEAR	PRINCIPAL AMOUNT
2035	$41,000,000
2036	41,000,000
2037	41,000,000
2038	41,000,000
2039 (stated maturity)	41,000,000

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

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

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

We express no opinion herein as to the accuracy, adequacy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

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

APPENDIX C

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 UNDERWRITERS 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.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds 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, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 Exchange Act. DTC holds and provides asset servicing for over 3.6 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 is rated "AA+" by S&P. The DTC Rules applicable to its Participants are on file with the Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, 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 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 Bond 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 within an issue 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 the 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 the 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 detailed information from the State or 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 bonds 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the State or the Bond Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

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

The information in this 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 D

FORM OF CONTINUING DISCLOSURE UNDERTAKING FOR THE PURPOSE OF PROVIDING CONTINUING DISCLOSURE INFORMATION UNDER SECTION (b)(5) OF RULE 15c2-12

This Continuing Disclosure Undertaking (this *"Agreement"*) is executed and delivered by the State of Illinois (the *"State"*), in connection with the issuance of $1,025,000,000 General Obligation Bonds, Series of February 2014 (the *"Bonds"*). The Bonds are being issued pursuant to a Bond Sale Order approved by the Governor and the Acting Director of the Governor's Office of Management and Budget of the State, dated February 6, 2014 (the "*Bond Order*").

In consideration of the issuance of the Bonds by the State and the purchase of such Bonds by the beneficial owners thereof, the State covenants and agrees as follows:

1. PURPOSE OF THIS AGREEMENT. This Agreement is executed and delivered by the State as of the date set forth below, for the benefit of the beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with the requirements of the Rule (as defined below). The State represents that it will be the only obligated person with respect to the Bonds at the time the Bonds are delivered to the Participating Underwriters and that no other person is expected to become so committed at any time after issuance of the Bonds.

2. DEFINITIONS. The terms set forth below shall have the following meanings in this Agreement, unless the context clearly otherwise requires.

Annual Financial Information means the financial information and operating data described in *Exhibit I*.

Annual Financial Information Disclosure means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

Audited Financial Statements means the Comprehensive Annual Financial Report of the State ("CAFR") as described in *Exhibit I*.

Commission means the Securities and Exchange Commission.

Dissemination Agent means any agent designated as such in writing by the State and which has filed with the State a written acceptance of such designation, and such agent's successors and assigns.

EMMA means the MSRB through its Electronic Municipal Market Access system for municipal securities disclosure or through any other electronic format or system prescribed by the MSRB for purposes of the Rule.

Exchange Act means the Securities Exchange Act of 1934, as amended.

MSRB means the Municipal Securities Rulemaking Board.

Official Statement means the Final Official Statement, dated February 6, 2014, and relating to the Bonds.

Participating Underwriter means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Bonds.

Reportable Event means the occurrence of any of the Events with respect to the Bonds set forth in *Exhibit II*.

Reportable Events Disclosure means dissemination of a notice of a Reportable Event as set forth in Section 5.

Rule means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

Undertaking means the obligations of the State pursuant to Sections 4 and 5.

3. CUSIP NUMBERS. The CUSIP Numbers of the Bonds are set forth in *Exhibit III*. The State will include the CUSIP Numbers in all disclosure materials described in Sections 4 and 5 of this Agreement.

4. ANNUAL FINANCIAL INFORMATION DISCLOSURE. Subject to Section 8 of this Agreement, the State hereby covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (in the form and by the dates set forth in *Exhibit I*) to EMMA in such manner and format and accompanied by identifying information as is prescribed by the MSRB or the Commission at the time of delivery of such information and by such time so that such entities receive the information by the dates specified. MSRB Rule G-32 requires all EMMA filings to be in word-searchable PDF format. This requirement extends to all documents to be filed with EMMA, including financial statements and other externally prepared reports.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the State will disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment or waiver is made to this Agreement, the Annual Financial Information for the year in which such amendment or waiver is made (or in any notice or supplement provided to EMMA) shall contain a narrative description of the reasons for such amendment or waiver and its impact on the type of information being provided.

5. REPORTABLE EVENTS DISCLOSURE. Subject to Section 8 of this Agreement, the State hereby covenants that it will disseminate in a timely manner (not in excess of ten business days after the occurrence of the Reportable Event) Reportable Events Disclosure to EMMA in such manner and format and accompanied by identifying information as is prescribed by the MSRB or the Commission at the time of delivery of such information. References to "material" in *Exhibit II* refer to materiality as it is interpreted under the Exchange Act. MSRB Rule G-32 requires all EMMA filings to be in word-searchable PDF format. This requirement extends to all documents to be filed with EMMA, including financial statements and other externally prepared reports. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Bonds or defeasance of any Bonds need not be given under this Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the Bondholders pursuant to the Bond Order.

6. CONSEQUENCES OF FAILURE OF THE STATE TO PROVIDE INFORMATION. The State shall give notice in a timely manner to EMMA of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the State to comply with any provision of this Agreement, 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 this Agreement. A default under this Agreement shall not be deemed a default under the Bond Order, and the sole remedy under this Agreement in the event of any failure of the State to comply with this Agreement shall be an action to compel performance.

7. AMENDMENTS; WAIVER. Notwithstanding any other provision of this Agreement, the State by resolution authorizing such amendment or waiver, may amend this Agreement, and any provision of this Agreement may be waived, if:

(a) (i) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, including without limitation, pursuant to a "no-action" letter issued by the Commission, a change in law, or a change in the identity, nature, or status of the State, or type of business conducted; or

(ii) This Agreement, 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

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

In the event that the Commission or the MSRB or other regulatory authority shall approve or require Annual Financial Information Disclosure or Reportable Events Disclosure to be made to a central post office, governmental agency or similar entity other than EMMA or in lieu of EMMA, the State shall, if required, make such dissemination to such central post office, governmental agency or similar entity without the necessity of amending this Agreement.

8. TERMINATION OF UNDERTAKING. The Undertaking of the State shall be terminated hereunder if the State shall no longer have any legal liability for any obligation on or relating to repayment of the Bonds under the Bond Order. The State shall give notice to EMMA in a timely manner if this Section is applicable.

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

10. ADDITIONAL INFORMATION. Nothing in this Agreement shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information Disclosure or notice of occurrence of a Reportable Event, in addition to that which is required by this Agreement. If the State chooses to include any information from any document or notice of occurrence of a Reportable Event in addition to that which is specifically required by this Agreement, the State shall have no obligation under this Agreement to update such information or include it in any future disclosure or notice of occurrence of a Reportable Event.

11. BENEFICIARIES. This Agreement has been executed in order to assist the Participating Underwriters in complying with the Rule; however, this Agreement shall inure solely to the benefit of the State, the Dissemination Agent, if any, and the beneficial owners of the Bonds, and shall create no rights in any other person or entity.

12. RECORDKEEPING. The State shall maintain records of all Annual Financial Information Disclosure and Reportable Events Disclosure, including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

13. ASSIGNMENT. The State shall not transfer its obligations under the Bond Order unless the transferee agrees to assume all obligations of the State under this Agreement or to execute an Undertaking under the Rule.

14. GOVERNING LAW. This Agreement shall be governed by the laws of the State.

STATE OF ILLINOIS

By ____

Its: Acting Director
Governor's Office of Management and Budget
Name: Jerome Stermer
Address: 100 W. Randolph, 15th Floor
Chicago, Illinois 60601

Date: February 13, 2014

EXHIBIT I
ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

Annual Financial Information: financial information and operating data including information of the type contained in the Official Statement as follows (i) in Tables 2 through 5 under the heading "STATE FINANCIAL INFORMATION", (ii) in Tables 6, 7, 10, 11 and 14 under the heading "INDEBTEDNESS", (iii) in Tables 23 and 24 under the heading "PENSION SYSTEMS", and (iv) in Table 34B under the heading "OTHER POST EMPLOYMENT BENEFITS."

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted to EMMA or filed with the Commission. If the information included by reference is contained in a Final Official Statement, the Final Official Statement must be available on EMMA; the Final Official Statement need not be available from the Commission. The State shall clearly identify each such item of information included by reference.

Annual Financial Information exclusive of Audited Financial Statements will be submitted to EMMA by 330 days after the last day of the State's fiscal year (currently June 30). Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information.

Audited Financial Statements are created and published by the Office of the Illinois Comptroller in the form of the State's Comprehensive Annual Financial Report ("CAFR"). Once available to the Governor's Office of Management and Budget, a draft CAFR or final CAFR will be submitted to EMMA within 30 days. The CAFR will be prepared in accordance with the accounting principles described in the Official Statement.

If any change is made to the Annual Financial Information as permitted by Section 4 of the Agreement, the State will disseminate a notice of such change as required by Section 4.

EXHIBIT II
EVENTS WITH RESPECT TO THE BONDS FOR WHICH REPORTABLE EVENTS DISCLOSURE IS REQUIRED

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. 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 status of the security
7. Modifications to the rights of security holders, if material
8. Bond calls, if material, and tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities, if material
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar event of the State*
13. 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
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material

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* This 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.

EXHIBIT III
CUSIP NUMBERS

YEAR OF MATURITY	CUSIP NUMBER
2015	452152 US8
2016	452152 VU2
2017 (3.00%)	452152 UT6
2017 (4.00%)	452152 VV0
2018	452152 UU3
2019 (4.00%)	452152 UV1
2019 (5.00%)	452152 VN8
2020 (4.00%)	452152 UW9
2020 (5.00%)	452152 VP3
2021 (4.00%)	452152 UX7
2021 (5.00%)	452152 VQ1
2022 (4.00%)	452152 UY5
2022 (5.00%)	452152 VR9
2023 (4.00%)	452152 UZ2
2023 (5.00%)	452152 VS7
2024 (4.00%)	452152 VA6
2024 (5.00%)	452152 VT5
2025	452152 VB4
2026	452152 VC2
2027	452152 VD0
2028	452152 VE8
2029 (4.50%)	452152 VF5
2029 (5.25%)	452152 VW8
2030	452152 VG3
2031	452152 VH1
2032	452152 VJ7
2033	452152 VK4
2034	452152 VL2
2039	452152 VM0

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