

**Supplement to the Official Statement dated April 25, 2014**

Relating to

**\$750,000,000**

**STATE OF ILLINOIS  
GENERAL OBLIGATION BONDS  
Series of May 2014**

The Official Statement, dated April 25, 2014, as supplemented on May 16, 2014, for the \$750,000,000 State of Illinois General Obligation Bonds, Series of May 2014, is further supplemented with the attached information.

This Supplement updates the information appearing in the Official Statement under the caption, "STATE FINANCIAL INFORMATION" in Tables 1 and 1A, and under the subcaption, "Fiscal Year 2014 (July 2013 - June 2014) Revised Budget." This Supplement supersedes the information in the Official Statement under the subcaptions, "Fiscal Year 2015 (July 2014 - June 2015) - Governor's Proposed Budgets," "Tables 1B and 1C - Comparison of Fiscal Years 2013 (Actual) and 2014 (Revised) with Governor's Proposed Budgets," "Fiscal Year 2015 Governor's 'Not Recommended' Budget" and "Fiscal Year 2015 Governor's 'Recommended' Budget."

The information in this Supplement under the caption, "*Ruling by the Illinois Supreme Court in Kanerva v. Weems (July 3, 2014)*" is added to the information under the caption, "LITIGATION" in the Official Statement.

**This Supplement is dated July 18, 2014.**

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

(Dollars in Millions)

	Fiscal Year 2012 Actual Results (June 2013)	Fiscal Year 2013 Actual Results (January 2014)	Fiscal Year 2014 Revised Budget (June 2014)	Fiscal Year 2015 Enacted Budget (June 2014)
<b>SOURCES</b>				
State Revenues				
Individual Income Tax	\$ 15,512	\$ 16,538	\$ 16,642	\$ 14,845
Corporate Income Tax	2,461	3,177	3,164	3,071
Sales Tax	7,226	7,355	7,676	7,847
Public Utility Taxes	995	1,033	1,013	1,031
Cigarette Taxes	354	353	353	355
Inheritance Tax	235	293	276	190
Liquor Gallonage Taxes	164	165	165	167
Insurance Tax and Fees	345	334	333	325
Corporate Franchise Taxes and Fees	192	205	203	201
Other State Sources	766	768	888	751
Federal Revenues	3,681	4,155	3,903	4,496
<b>TOTAL REVENUES</b>	<b>31,931</b>	<b>34,376</b>	<b>34,616</b>	<b>33,278</b>
Transfers In <sup>1</sup>	1,689	1,987	2,152	1,835
<b>TOTAL OPERATING SOURCES</b>	<b>33,620</b>	<b>36,363</b>	<b>36,768</b>	<b>35,114</b>
<b>USES</b>				
Operating Budget Objectives <sup>2</sup>				
Provide quality education and opportunities for growth	8,945	8,632	8,785	8,764
Enhance the economic well-being of citizens	94	84	97	104
Protect the lives and property of citizens	1,533	1,475	1,633	1,506
Protect the most vulnerable among us	5,404	5,704	5,361	5,082
Improve access to and cost effectiveness of healthcare	6,845	7,043	7,639	7,313
Improve the quality of life for citizens	68	62	64	63
Improve the efficiency and fiscal stability of State Government	2,558	2,741	2,579	2,614
State Pension Contributions <sup>3</sup>	4,135	5,107	5,989	6,046
Unspent Budgeted Appropriations <sup>4</sup>	(374)	(556)	(533)	(334)
<b>TOTAL EXPENDITURES <sup>4</sup></b>	<b>29,208</b>	<b>30,292</b>	<b>31,614</b>	<b>31,158</b>
Transfers Out <sup>5</sup>				
Statutory Transfers to Other State Funds	2,473	2,840	2,933	2,377
Debt Service Transfers: Capital Bonds	453	551	625	717
Debt Service Transfers: Pension Bonds (2003, 2010, & 2011)	1,607	1,552	1,656	1,503
Debt Service Transfers: Medicaid Borrowing	0	0	0	0
<b>TOTAL OPERATING USES</b>	<b>33,741</b>	<b>35,235</b>	<b>36,827</b>	<b>35,756</b>
<b>EXCESS OPERATING SOURCES OVER/(UNDER) USES</b>	<b>(121)</b>	<b>1,128</b>	<b>(59)</b>	<b>(642)</b>
<b>OTHER FINANCIAL SOURCES/(USES)</b>				
Pension Obligation Bonds	0	0	0	0
Railsplitter - Tobacco Revenue Securitization	0	0	0	0
Short-Term Borrowing	0	0	0	0
Short-Term Borrowing Repayment	0	0	0	0
Inter-Fund Borrowing	0	0	0	650
Inter-Fund Borrowing Repayment	(356)	(132)	0	0
Budget Stabilization Fund Repayment	0	0	0	0
<b>TOTAL OTHER FINANCIAL SOURCES/(USES)</b>	<b>(356)</b>	<b>(132)</b>	<b>0</b>	<b>650</b>
<b>BUDGET BASIS SURPLUS/(DEFICIT)</b>	<b>(477)</b>	<b>996</b>	<b>(59)</b>	<b>8</b>
<b>FUND BALANCE - BEGINNING OF FISCAL YEAR</b>	<b>(4,507)</b>	<b>(4,984)</b>	<b>(3,988)</b>	<b>(4,047)</b>
<b>FUND BALANCE - END OF FISCAL YEAR</b>	<b>\$ (4,984)</b>	<b>\$ (3,988)</b>	<b>\$ (4,047)</b>	<b>\$ (4,039)</b>

**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 2012 Actual Results (June 2013)	Fiscal Year 2013 Actual Results (January 2014)	Fiscal Year 2014 Revised Budget (June 2014)	Fiscal Year 2015 Enacted Budget (June 2014)
<b><u>CHANGE IN BUDGET BASIS FUND BALANCE</u></b>				
BUDGET BASIS FUND BALANCE - BEGINNING OF FISCAL YEAR	\$ (4,507)	\$ (4,984)	\$ (3,988)	\$ (4,047)
Budget Basis Surplus/(Deficit)	(477)	996	(59)	8
<b>BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR</b>	<b><u>(4,984)</u></b>	<b><u>(3,988)</u></b>	<b><u>(4,047)</u></b>	<b><u>(4,039)</u></b>
<b><u>CHANGE IN CASH BALANCE</u></b>				
GENERAL FUNDS CASH BALANCE - BEGINNING OF FISCAL YEAR	469	40	154	74
Budget Basis Surplus/(Deficit)	(477)	996	(59)	8
Increase/(Paydown) of Accounts Payable	48	(882)	(21)	(8)
GENERAL FUNDS CASH BALANCE - END OF FISCAL YEAR <sup>6</sup>	40	154	74	74
BUDGET STABILIZATION FUND CASH BALANCE - END OF FISCAL YEAR <sup>7</sup>	276	276	276	276
<b>TOTAL CASH BALANCE - END OF FISCAL YEAR</b>	<b><u>316</u></b>	<b><u>430</u></b>	<b><u>350</u></b>	<b><u>350</u></b>
<b><u>CHANGE IN ACCOUNTS PAYABLE</u></b>				
ACCOUNTS PAYABLE - BEGINNING OF FISCAL YEAR	4,976	5,024	4,142	4,121
Increase/(Paydown) of Accounts Payable due to Surplus/(Deficit) <sup>8</sup>	48	(882)	(21)	(8)
<b>ACCOUNTS PAYABLE - END OF FISCAL YEAR</b>	<b><u>5,024</u></b>	<b><u>4,142</u></b>	<b><u>4,121</u></b>	<b><u>4,113</u></b>
<b><u>BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR</u></b>				
General Funds Cash Balance - End of Fiscal Year	40	154	74	74
Less: Accounts Payable - End of Fiscal year	(5,024)	(4,142)	(4,121)	(4,113)
<b>BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR <sup>9</sup></b>	<b><u>\$ (4,984)</u></b>	<b><u>\$ (3,988)</u></b>	<b><u>\$ (4,047)</u></b>	<b><u>\$ (4,039)</u></b>

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

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## FOOTNOTES – TABLE 1 & 1A

<sup>1</sup> Transfers In consists primarily of State lottery and gaming revenues as well as transfers from the Build Illinois Fund, the Capital Projects Fund, and various fees and miscellaneous revenues, initially deposited into other State funds. Fiscal Year 2013 also included 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 of June 2013, and subsequently transferred to the General Funds, pursuant to statute.

<sup>2</sup> 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. More information with respect to Budgeting for Results is available on GOMB's website; see "STATE OF ILLINOIS—WEBSITE INDEX" in the Official Statement.

<sup>3</sup> 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: \$230 million (actual) in FY 2012, \$150 million (actual) in FY 2013, \$198 million (revised) in FY 2014, and approximately \$197 million in FY 2015.

<sup>4</sup> 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.

<sup>5</sup> 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 to provide for the payment of principal and interest on bonds when due. See "THE OFFERING—SECURITY – *State Funding Payments*" in the Official Statement.

<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> 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 generally financed by reducing Cash Balances, and/or increasing outstanding Accounts Payable, or the issuance of debt under authority granted by Article 9, Section 9(d) of the State's Constitution. See "INDEBTEDNESS – *Short Term Debt*" in the Official Statement for additional details. 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 (see notes to Tables 1, 1A and 2, *Expenditure and Liability Recognition*" in the Official Statement). Extension of the Lapse Period allows for the payment of fiscal year bills through the end of August for services incurred prior to the close of the preceding fiscal year ending June 30. However, pursuant to Public Act 97-0691, group health insurance bills and no more than \$100 million per year in medical assistance bills (not including medical bills incurred but not recorded at the Department of Healthcare and Family Services) may be deferred as "Section 25 Liabilities." Section 25 Liabilities 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" in the Official Statement for significant changes in the State's Finance Act and the implications for future Section 25 liabilities.

<sup>9</sup> 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.

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**The State of Illinois**  
**Update on Fiscal Year 2014 and Review of Fiscal Year 2015 Enacted Budget**

Update on Fiscal Year 2014:

(Numbers may not foot due to rounding.)

As of June 30, 2014, Fiscal Year (FY) 2014 ended with the following changes to previously estimated results:

- Revenues, compared to March, 2014 projections, came in approximately \$43 million higher due to better than forecast Individual Income Tax of \$341 million, \$66 million in Sales Taxes, \$58 million in Inheritance Taxes and \$55 million in Other Sources. These increases were offset by declines from the March projections of \$153 million in Corporate Income Tax, \$210 million in Federal Sources and, finally, a decline in Transfers In of \$126 million. (Note: In the Official Statement dated April 25, 2014, the presentation of the March, 2014 projections for FY2014 switched the amounts shown for Inheritance Tax and Liquor Tax with each other in error.)
- In May, the General Assembly passed \$974 million in Supplemental Appropriations to be utilized as follows:
  - \$100 million in Supplemental Appropriations to Protect the Lives and Property of Citizens.
  - \$166 million in Supplemental Appropriations to Improve the Efficiency and Fiscal Stability of State Government.
  - \$108 million in Supplemental Appropriations for a variety of State operations and programs.
  - \$600 million in Supplemental Appropriations to pre-fund the Healthcare Provider Relief Fund for Fiscal Year 2015 (See *Review of Fiscal Year 2015 Enacted Budget* below for additional discussion).

In March, 2014, FY2014 was projected to end with a surplus of \$871 million. Given the changes noted above, FY2014 is now projected to end with an estimated deficit of \$59 million. This year-end result will not be final until the end of the Lapse Period (vouchers for FY2014 expenditures must be received by August 31 and paid by December 31). Budget Basis Accounts Payables are now estimated, after the end of the lapse period, to end Fiscal year 2014 at \$4.1 billion, a decrease of \$21 million due from FY2013 to the reduction of cash of \$80 million. See Table 1 and 1A attached hereto for further details.

Review of Fiscal Year 2015 Enacted Budget:

(Numbers may not foot due to rounding.)

**Budgets, by their, nature, contain projections based on information available at the time they are constructed. The operating results for the fiscal year covered by the Budget discussed below are, therefore, dependent upon the realization of such projections, and final results may vary from results reflected in the Budget.**

**REVENUES:** Total Revenues for FY2015 are projected to be \$35.1 billion, a reduction from FY2014 of \$1.7 billion (4.5%) from FY2014 Total Revenues of \$36.8 billion. Individual Income Tax, Corporate

Income Tax and Sales Tax are projected to be \$25.8 billion versus \$27.5 billion received in FY2014, a \$1.7 billion (6.2%) reduction. This reflects the decline of \$1.9 billion in Individual Income Tax and Corporate Income Tax revenues from the statutorily required reduction in Individual Income Tax rates from 5% to 3.75% and the Corporate Income Tax rate from 7% to 5.25% effective January 1, 2015, offset by an increase in Sales Taxes of \$171 million. Other factors impacting Total Revenues include projected “organic” growth from increased economic activity of approximately 2% and a decline in all other State Sources of \$211 million.

Federal Sources are projected to increase to \$4.5 billion in FY2015 from \$3.9 billion (a 15.2% increase) due to increased Medicaid matching dollars associated with the Affordable Care Act and the resulting higher Medicaid enrollment. Transfers In are projected to decline to \$1.8 billion in FY2015 from \$2.2 billion in FY2014 (a decline of \$317 million or 14.7%). The bulk of this decline is the one-time transfer in FY2014 of \$396 million in excess funds from the Income Tax Refund Fund back to the General Revenue Funds.

Expenditures: Total Expenditures for FY2015 are estimated to be \$35.8 billion versus \$36.8 billion in FY2014, a decline of \$1.0 billion or 2.7%. Expenditures for operations are projected to decline by \$712 million between FY2015 and FY2014 offset by an increase in Pension Expense of \$57 million to \$6.0 billion and a decrease in Unspent Appropriations of \$199 million to \$334 million from \$533 million projected for Fiscal Year 2014.

Additional items impacting the Budget include:

- Transfers Out are projected to decline by \$556 million to \$2.4 billion in FY2015 from \$2.9 billion in FY2014. As noted in the *Update on Fiscal Year 2014* above, the General Assembly passed a Supplemental Appropriation of \$600 million that was used to pre-fund the Healthcare Provider Relief Fund. The pre-funding of this Fund allowed the General Assembly to decrease appropriations by an equal amount in FY2015 and accounts for the reduction in Transfers Out.
- Debt Service for both Pension and Capital Bonds is projected to decrease by \$62 million, reflecting a decline in debt service for Pension-related debt service of \$154 million and an increase in Capital-related debt service of \$92 million based on current amortization of the former and increased level of outstanding bonds of the latter.
- To assist in funding the Budget, an inter-fund borrowing of \$650 million was approved by the General Assembly.
- Accounts Payable, including “Section 25 Vouchers,” are estimated to increase by \$283 million (4.7%) to approximately \$6.3 billion.
- Approximately \$470 million in programs, operations and agencies (including payrolls) were appropriated at levels that do not fund their full year of operations. As a result, a Supplemental Appropriation to fund these shortages in early 2015, or a shutdown of the effected programs, operations and agencies starting in late spring 2015, will be necessary. **The State can provide no assurance that a supplemental appropriation will be passed by the General Assembly, that such supplemental appropriation will be signed into law by the Governor, or regarding how such appropriations will be funded.**

Based on the projected Revenues and Expenditures discussed above, FY2015 is projected to end with a surplus of \$8 million.

*Ruling by the Illinois Supreme Court in Kanerva v. Weems (July 3, 2014)*

On July 3, 2014, the Illinois Supreme Court, in reversing the trial court's dismissal of the case and remanding the case back to the trial court for further proceedings, ruled that the health insurance premium subsidies that the State pays for retired state employees are a benefit of membership in a pension or retirement system and are subject to article XIII, section 5, of the Illinois Constitution. The case involves challenges to Public Act 97-695, a law passed in 2012, which allowed the State to change the level of contributions that retirees were required to make toward the cost of their health insurance coverage. The FY2015 budget assumes the State will collect approximately \$90 million in premiums from retirees in FY2015 as a result of changes that were permitted under Public Act 97-695. The State's ability to collect this amount is being contested in this case and is subject to further order of court. **The State can give no assurance as to the outcome or timing of these proceedings.**

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