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

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

$450,000,000
State of Illinois
General Obligation Bonds,
Series A of April 2013

$350,000,000
State of Illinois
General Obligation Bonds,
Taxable Series B of April 2013

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 A of April 2013 (the "Series A Bonds") and General Obligation Bonds, Taxable Series B of April 2013 (the "Series B Bonds" and together with the Series A Bonds, the "Bonds"). The Bonds will be issued only as fully registered book-entry bonds in denominations of $5,000 or any integral thereof. The Bonds, when issued, will be registered under a global book-entry system operated by Cede & Co., as a nominee of The Depositary Trust Company ("DTC"), New York, New York. See "APPENDIX D – BOOK-ENTRY SYSTEM." The Bonds will bear interest at the rates shown on the inside cover of this Official Statement. Interest on the Bonds will be payable April 1 and October 1 of each year, commencing on October 1, 2013. Details of payment of the Bonds are described herein.

The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as set forth herein.

The Bonds are direct, general obligations of the State, secured by a pledge of its full faith and credit. The Bonds are issued under the General Obligation Bond Act of the State of Illinois, as amended, to provide funds to finance certain of the State's capital development, school construction and transportation projects and to pay costs of financing, including, but not limited to, the cost of issuance of the Bonds.

The scheduled payment of principal of and interest on the Series A Bonds maturing on April 1 of the years 2025 through 2034, inclusive (the "Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by **ASSURED GUARANTY MUNICIPAL CORP.** See "BOND INSURANCE."

The Bonds are offered when, as and if issued and received by the Purchaser, subject to approval of legality by Mayer Brown LLP, Chicago, Illinois and Burke Burns and Pinelli, Ltd. ("Co-Bond Counsel"), and certain other conditions. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about April 10, 2013.

BofA MERRILL LYNCH

April 2, 2013

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

$450,000,000 GENERAL OBLIGATION BONDS, SERIES A OF APRIL 2013

Due April 1	Principal Amount	Interest Rate	Yield	Price	CUSIP*
2014	$18,000,000	2.000%	0.881%	101.084	452152QX2
2015	18,000,000	5.000	0.990	107.823	452152QY0
2016	18,000,000	5.000	1.310	110.731	452152QZ7
2017	18,000,000	5.000	1.610	113.002	452152RA1
2018	18,000,000	5.000	1.930	114.495	452152RB9
2019	18,000,000	5.000	2.250	115.293	452152RC7
2020	18,000,000	5.000	2.520	115.771	452152RD5
2021	18,000,000	5.000	2.800	115.625	452152RE3
2022	18,000,000	5.000	3.060	115.124	452152RF0
2023	18,000,000	5.000	3.300	114.348	452152RG8
2024	18,000,000	5.000	3.420	113.257[1]	452152RH6
2025	18,000,000	5.000	3.550	112.089[1,2]	452152RJ2
2026	18,000,000	5.000	3.680	110.936[1,2]	452152RK9
2027	18,000,000	5.000	3.790	109.971[1,2]	452152RL7
2028	18,000,000	5.000	3.880	109.190[1,2]	452152RM5
2029	18,000,000	5.000	3.940	108.672[1,2]	452152RN3
2030	18,000,000	4.000	4.050	99.389[2]	452152RP8
2031	18,000,000	4.000	4.100	98.735[2]	452152RQ6
2032	18,000,000	4.000	4.150	98.042[2]	452152RR4
2033	18,000,000	4.125	4.190	99.125[2]	452152RS2
2034	18,000,000	4.125	4.240	98.411[2]	452152RT0
2035	18,000,000	5.000	4.290	105.711[1]	452152RU7
2036	18,000,000	5.000	4.340	105.296[1]	452152RV5

$36,000,000 5.000% Term Bond due April 1, 2038; Yield 4.440%; Price 104.472[1]; CUSIP 452152RW3

$350,000,000 GENERAL OBLIGATION BONDS, TAXABLE SERIES B OF APRIL 2013

Due April 1	Principal Amount	Interest Rate	Yield	Price	CUSIP*
2014	$14,000,000	1.100%	1.100%	100.000	452152QF1
2015	14,000,000	1.430	1.430	100.000	452152QG9
2016	14,000,000	1.780	1.780	100.000	452152QH7
2017	14,000,000	2.420	2.420	100.000	452152QJ3
2018	14,000,000	2.770	2.770	100.000	452152QK0
2019	14,000,000	3.250	3.250	100.000	452152QL8
2020	14,000,000	3.650	3.650	100.000	452152QM6
2021	14,000,000	3.860	3.860	100.000	452152QN4
2022	14,000,000	4.110	4.110	100.000	452152QP9
2023	14,000,000	4.310	4.310	100.000	452152QQ7
2024	14,000,000	4.460	4.460	100.000	452152QR5
2025	14,000,000	4.610	4.610	100.000	452152QS3
2026	14,000,000	4.760	4.760	100.000	452152QT1
2027	14,000,000	4.910	4.910	100.000	452152QU8
2028	14,000,000	5.010	5.010	100.000	452152QV6

$140,000,000 5.520% Term Bond due April 1, 2038; Yield 5.520%; Price 100.000; CUSIP 452152QW4

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

[1] Priced to the April 1, 2023 call date.

[2] Insured under an insurance policy to be issued by Assured Guaranty Municipal Corp.

STATE OF ILLINOIS

$450,000,000
State of Illinois
General Obligation Bonds,
Series A of April 2013

$350,000,000
State of Illinois
General Obligation Bonds,
Taxable Series B of April 2013

Pat Quinn
Governor

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

John Sinsheimer
Director of Capital Markets

PREFACE

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

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

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and "APPENDIX G-SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

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

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

FORWARD-LOOKING STATEMENTS

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

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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 $450,000,000 General Obligation Bonds, Series A of April 2013 (the "Series A Bonds") and the State's $350,000,000 General Obligation Bonds, Taxable Series B of April 2013 (the "Series B Bonds," together, with Series A Bonds, 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. Measured by per capita personal income, the State ranks third among the ten most populous states and fourteenth among all states. Illinois ranks third among all states in total cash receipts from crops, fifth in agricultural exports and ranks among the top states in several measures of manufacturing activity. Chicago, the largest city in the State, is the third most populous city in the United States and serves as the transportation center of the Midwestern U.S. and the headquarters of many of the nation's major corporations and financial institutions. See "STATE OF ILLINOIS," "STATE FINANCIAL INFORMATION" and "APPENDIX A - CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS" for sources and further information regarding the State.

SECURITY

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

TAX TREATMENT OF INTEREST

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

AUTHORITY FOR ISSUANCE

The Bond Act authorizes the State to issue and sell direct, general obligations of the State (the "GO Bonds"), including the Bonds, for purposes other than refunding, in the currently authorized aggregate principal amount of $46,361,925,743. The Bond Act further authorizes the issuance of GO Bonds in the amount of up to $4,839,025,000, at any time and from time-to-time outstanding, for the purpose of refunding any outstanding GO Bonds. The total amount of GO Bonds outstanding, as of April 10, 2013, inclusive of the Bonds, is $27,007,328,778. The Bond Act consolidated the authorization contained in prior bond acts into a single act. See "INDEBTEDNESS – GENERAL OBLIGATION BONDS" for a description of the GO Bonds authorized, previously issued and outstanding under the Bond Act and prior bond acts.

Amendments to the Bond Act, effective July 30, 2004 (the "Amendments"), placed certain restrictions on the issuance of GO Bonds. The Amendments include the following: (i) at least 25% of the GO Bonds issued within a fiscal year must be sold pursuant to notice of sale and public bid; (ii) other than certain refunding GO Bonds, GO Bonds must be issued with principal or mandatory redemption amounts in equal amounts in each fiscal year beginning the year following issuance and for a term not to exceed 25 years, with the first maturity issued occurring within the fiscal year in which the GO Bonds are issued or within the next succeeding fiscal year; and (iii) GO Bonds may not be issued if, after their issuance, in the next State fiscal year after the issuance of such GO Bonds, the amount of debt service on all then-outstanding GO Bonds (other than GO Bonds issued to pay pension obligations in 2010 and 2011) exceeds 7% of the General Funds and Road Fund appropriations for the fiscal year immediately prior to the fiscal year of the issuance; however, the Illinois State Treasurer (the "Treasurer") and Illinois State Comptroller (the "Comptroller"), acting together, can waive this requirement. The Amendments also require the Governor's Office of Management and Budget ("GOMB") to comply with the Business Enterprise for Minorities, Females, and Persons with Disabilities Act (30 ILCS 575/1, *et seq*.) in respect to procuring services for the issuance of GO Bonds.

THE OFFERING

DESCRIPTION OF BONDS

The Bonds will bear interest from their issue date and will mature on April 1, of each of the years 2014 to 2038, inclusive. Interest on the Bonds is payable semiannually on the first days of April and October of each year, beginning on October 1, 2013, at the rates per annum specified on the inside of the front cover of this Official Statement.

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

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2014	$18,000,000	$20,577,375	$38,577,375
2015	18,000,000	20,745,000	38,745,000
2016	18,000,000	19,845,000	37,845,000
2017	18,000,000	18,945,000	36,945,000
2018	18,000,000	18,045,000	36,045,000
2019	18,000,000	17,145,000	35,145,000
2020	18,000,000	16,245,000	34,245,000
2021	18,000,000	15,345,000	33,345,000
2022	18,000,000	14,445,000	32,445,000
2023	18,000,000	13,545,000	31,545,000
2024	18,000,000	12,645,000	30,645,000
2025	18,000,000	11,745,000	29,745,000
2026	18,000,000	10,845,000	28,845,000
2027	18,000,000	9,945,000	27,945,000
2028	18,000,000	9,045,000	27,045,000
2029	18,000,000	8,145,000	26,145,000
2030	18,000,000	7,245,000	25,245,000
2031	18,000,000	6,525,000	24,525,000
2032	18,000,000	5,805,000	23,805,000
2033	18,000,000	5,085,000	23,085,000
2034	18,000,000	4,342,500	22,342,500
2035	18,000,000	3,600,000	21,600,000
2036	18,000,000	2,700,000	20,700,000
2037*	18,000,000	1,800,000	19,800,000
2038*	18,000,000	900,000	18,900,000
Total:	$450,000,000	$275,254,875	$725,254,875

*Term Bonds subject to mandatory sinking fund redemption. See "REDEMPTION – *MANDATORY SINKING FUND REDEMPTION*."

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

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2014	$14,000,000	$14,691,495	$28,691,495
2015	14,000,000	14,914,200	28,914,200
2016	14,000,000	14,714,000	28,714,000
2017	14,000,000	14,464,800	28,464,800
2018	14,000,000	14,126,000	28,126,000
2019	14,000,000	13,738,200	27,738,200
2020	14,000,000	13,283,200	27,283,200
2021	14,000,000	12,772,200	26,772,200
2022	14,000,000	12,231,800	26,231,800
2023	14,000,000	11,656,400	25,656,400
2024	14,000,000	11,053,000	25,053,000
2025	14,000,000	10,428,600	24,428,600
2026	14,000,000	9,783,200	23,783,200
2027	14,000,000	9,116,800	23,116,800
2028	14,000,000	8,429,400	22,429,400
2029*	14,000,000	7,728,000	21,728,000
2030*	14,000,000	6,955,200	20,955,200
2031*	14,000,000	6,182,400	20,182,400
2032*	14,000,000	5,409,600	19,409,600
2033*	14,000,000	4,636,800	18,636,800
2034*	14,000,000	3,864,000	17,864,000
2035*	14,000,000	3,091,200	17,091,200
2036*	14,000,000	2,318,400	16,318,400
2037*	14,000,000	1,545,600	15,545,600
2038*	14,000,000	772,800	14,772,800
Total:	$350,000,000	$227,907,295	$577,907,295

*Term Bonds subject to mandatory sinking fund redemption. See "REDEMPTION – *MANDATORY SINKING FUND REDEMPTION*."

REDEMPTION

OPTIONAL REDEMPTION

The Series A Bonds maturing on or after April 1, 2024 are subject to redemption prior to maturity at the option of the State as a whole, or in part, and if in part, the maturities to be redeemed are to be selected by the State as described under "*REDEMPTION PROCEDURE*" below, in integral multiples of $5,000 from such maturities as may be selected by the Bond Registrar (with less than all the Series A Bonds of a single maturity to be selected by lot) on April 1, 2023, and on any date thereafter, at the redemption price of par plus accrued interest to the date of redemption.

The Series B Bonds are subject to redemption prior to maturity at the option of the State on any Business Day, 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 the Make-Whole Redemption Price. The "Make-Whole Redemption Price" is the greater of (i) 100% of the principal amount of the Series B Bonds to be redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the Series B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series B Bonds are to be redeemed, discounted to the date on which the Series B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 35 basis points and accrued and unpaid interest on the Series B Bonds to be redeemed on the redemption date.

The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series B Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used. For purposes of this calculation, a "Business Day" means any day other than a Saturday or Sunday or legal holiday or a day on which banking institutions in the State are authorized by law or executive order to close.

MANDATORY SINKING FUND REDEMPTION

The Series A Bond maturing on April 1, 2038 (the "Series A Term Bond") is subject to mandatory sinking fund redemption, in part and selected as described under "*REDEMPTION PROCEDURE*" below, on April 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.

Year	Principal Amount to be Redeemed
2037	$18,000,000
2038 (maturity)	18,000,000

The Series B Bond maturing on April 1, 2038 (the "Series B Term Bond", together with the Series A Term Bond the "Term Bonds") is subject to mandatory sinking fund redemption, in part and selected as described under "*REDEMPTION PROCEDURE*" below, on April 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.

Year	Principal Amount to be Redeemed
2029	$14,000,000
2030	14,000,000
2031	14,000,000
2032	14,000,000
2033	14,000,000
2034	14,000,000
2035	14,000,000
2036	14,000,000
2037	14,000,000
2038 (maturity)	14,000,000

The Term Bonds shall be subject to mandatory sinking fund redemption from mandatory sinking fund payments that are required to be made in each designated year prior to maturity in amounts sufficient to redeem the principal amount of such Term Bonds shown for such years in the above tables.

The State may provide for the purchase of Term Bonds that are subject to mandatory redemption, from its lawfully available funds, on or prior to the 60th day preceding any date of mandatory redemption in an amount sufficient to retire the required amount of such Term Bonds on such mandatory redemption date. Any Term Bonds 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. If less than all of the Series A Bonds of a given maturity are to be redeemed prior to maturity, the particular Series A Bonds or portions of Series A Bonds to be redeemed will be selected by lot by the Bond Registrar of such maturity by such method of lottery as the Bond Registrar shall deem fair and appropriate; *provided,* that such lottery shall provide for the selection for redemption of Series A Bonds or portions thereof so that any $5,000 Bond or $5,000 portion of a Series A Bond shall be as likely to be called for redemption as any other such $5,000 Series A Bond or $5,000 portion.

While the Series B 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 such Bonds, if less than all of the Series B Bonds are to be redeemed prior to maturity, the State shall instruct DTC to provide for the pro-rata redemption following its procedures as a Pro-Rata Pass-Through Distribution of Principal or if DTC procedures do not allow for pro-rata pass-through distribution of principal, the Bonds to be redeemed shall be selected on a pro-rata basis; *provided* that, so long as such Bonds are registered in the Book-Entry Only System, the selection for redemption of such Series B Bonds will be made in accordance with the operational arrangements of DTC then in effect. See "APPENDIX E—BOOK-ENTRY SYSTEM."

It is the State's intent that redemption allocations of Series B Bonds made by DTC be made on a pro-rata pass-through distribution of principal basis as described above. However, the State cannot provide any assurance that DTC, DTC's Participants or any other intermediary will allocate the redemption of Series B Bonds on such basis, nor will the State be responsible for any failure of DTC, DTC's Participants or any other intermediary to do so. If the DTC operational arrangements do not allow for the redemption of Series B Bonds on a pro-rata pass-through distribution of principal basis, then the Series B Bonds to be redeemed will be selected for redemption on a pro-rata basis.

In connection with any repayment of principal of the Series B Bonds, including payments of scheduled mandatory sinking fund payments, the Bond Registrar will direct DTC to make a pass-through distribution of principal to the holders of the Series B Bonds.

For purposes of calculation of the *"pro rata pass-through distribution of principal," "pro rata"* means, for any amount of principal or interest to be paid, the application of a fraction to such amounts where (a) the numerator of which is equal to the amount due to the respective registered owners on a payment date, and (b) the denominator of which is equal to the total original par amount of the Series B Bonds of the maturity to be redeemed.

While the Series B Bonds are not in book-entry only form, if less than all of the Series B Bonds of a given maturity are called for prior redemption, the particular Series B Bonds or portions of Series B Bonds to be redeemed will be selected on a pro rata basis among the holders of the outstanding Series B Bonds of such maturity by application of a fraction the numerator of which is the principal amount of Series B Bonds of such maturity held by the holder and the denominator of which is the principal amount of all the Series B Bonds of such maturity then outstanding; *provided, however,* that if for a holder of Series B Bonds of such maturity the pro rata redemption will not result in a denomination of $5,000 or an integral multiple thereof (the *"Uneven Amount"*), then the amount to be redeemed allocable to such Uneven Amount will be as determined by the State by direction to the Bond Registrar in any commercially reasonable manner, which may include allocating such additional redemptions by rounding to the nearest denomination of $5,000 or by lot, or both.

Whenever any Term Bond is redeemed prior to maturity or purchased and cancelled by the State, the principal amount of such Term Bond so redeemed or cancelled shall be credited pro-rata against the unsatisfied balance of future sinking fund installments and final maturity amount established with respect to such Term Bond.

Notice of any redemption of Bonds will be sent by certified or first-class mail not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption to the registered owner of each Bond (or portion thereof) to be redeemed at the address shown on the registration books of the State maintained by the Bond Registrar, or at such other address as is furnished in writing by such registered owner to the Bond Registrar. In addition to the notice described in the preceding sentence, the Bond Registrar shall notify the registered owners of the Series B Bonds to be redeemed of the Make-Whole Redemption Price not later than the Business Day preceding the applicable redemption date.

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 or Make-Whole Redemption Price, as appropriate. 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 or Make-Whole Redemption Price, as appropriate, 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 and the redemption price have been given 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 therefore, such Bonds or portions of Bonds shall cease to bear interest.

PLAN OF FINANCE

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

APPLICATION OF BOND PROCEEDS

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

	Series A Bonds	Series B Bonds
Sources:		
Principal Amount Issued	$450,000,000	$350,000,000
Net Premium	36,191,520	0
Total Sources	$486,191,520	$350,000,000
Uses:		
Deposit to Project Fund	$484,301,880	$348,250,000
Purchaser's Discount	621,500	1,494,000
Insurance Expense	940,140	0
Cost of Issuance	328,000	256,000
Total Uses	$486,191,520	$350,000,000

SECURITY

DIRECT, GENERAL OBLIGATIONS

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

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

STATE FUNDING PAYMENTS

To provide for the manner of repayment of the Bonds, the Bond Act requires the Governor of the State (the "Governor") to include an appropriation in each annual State Budget of moneys in such amount as will be necessary and sufficient, for the period covered by such budget, to pay the interest, as it becomes payable, on all outstanding GO Bonds issued under the Bond Act and to pay and discharge the principal and premium, if any, of such GO Bonds falling due during such period.

The Bond Act also creates a separate fund in the State Treasury called the "General Obligation Bond Retirement and Interest Fund" (the "GOBRI Fund") to be used for such repayment. The Bond Act requires the General Assembly annually to make appropriations to pay the principal of, interest on and premium, if any, on outstanding GO Bonds issued under the Bond Act from the GOBRI Fund.

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

On or before the last day of each month, the Bond Act requires the Treasurer and Comptroller to transfer from the General Revenue Fund, to the GOBRI Fund an amount sufficient to pay the aggregate of the principal of, interest on and premium, if any, on GO Bonds issued under the Bond Act payable by their terms on the next payment date divided by the number of full calendar months between the date of such GO Bonds and the first such payment date, and thereafter, divided by the number of months between each succeeding payment date after the first payment date. The formula described above shall apply: (i) pursuant to the Bond Act for transfers from the Road Fund to the GOBRI Fund for GO Bonds issued under Section 4(a) of the Bond Act; (ii) pursuant to the State Finance Act and the Bond Act for transfers from the School Infrastructure Fund and the General Revenue Fund to the GOBRI Fund for GO Bonds issued under to Section 5(e) of the Bond Act for school improvement projects; (iii) and pursuant to the State Finance Act for transfers from the Capital Projects Fund to the GOBRI Fund for all GO Bonds issued pursuant to the bonding authorization under the Illinois Jobs Now! capital program. This transfer of moneys is not required if moneys in the GOBRI Fund are more than the amount otherwise to be transferred as hereinabove provided, and if the Governor or his authorized representative notifies the Treasurer and the Comptroller of such fact in writing. Historical fund transfers to GOBRI are further detailed under "INDEBTEDNESS –TRANSFERS TO THE GOBRI FUND FOR PAYMENT OF DEBT SERVICE."

If for any reason there are insufficient funds in the General Revenue Fund, or with respect to GO Bonds issued under Section 4(a) of the Bond Act for highway and surface transportation purposes (or bonds issued to refund bonds issued for such purposes) in the Road Fund established pursuant to Section 5.42 of the State Finance Act, 30 ILCS 105/1 *et. seq*. (the "Road Fund"), to make transfers to the GOBRI Fund as required by the Bond Act, or if for any reason the General Assembly fails to make appropriations sufficient to pay the principal of, interest on and premium, if any, on the GO Bonds, when due, the Bond Act constitutes an irrevocable and continuing appropriation of all amounts necessary for that purpose, and the irrevocable and continuing authority for and direction to the Treasurer and the Comptroller to make the necessary transfers, as directed by the Governor, out of and disbursements from the revenues and funds of the State.

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

INVESTMENT OF FUNDS

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

BOND INSURANCE

The information contained herein under the heading "BOND INSURANCE" has been provided by Assured Guaranty Municipal Corp. for inclusion in this Official Statement. The State has not independently verified the information contained in this "BOND INSURANCE" section and makes no representations nor expresses any opinion as to the accuracy of such information.

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series A Bonds maturing on April 1 of the years 2025 through 2034, inclusive (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement. See "APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of the shareholders of AGL or AGM is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA-" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On January 17, 2013, Moody's issued a press release stating that it had downgraded AGM's insurance financial strength rating to "A2" (stable outlook) from "Aa3." AGM can give no assurance as to any further ratings action that Moody's may take. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments.

On November 30, 2011, S&P published a Research Update in which it downgraded AGM's financial strength rating from "AA+" to "AA-". At the same time, S&P removed the financial strength rating from CreditWatch negative and changed the outlook to stable. AGM can give no assurance as to any further ratings action that S&P may take. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Capitalization of AGM

At December 31, 2012, AGM's consolidated policyholders' surplus and contingency reserves were approximately $3,324,781,247 and its total net unearned premium reserve was approximately $2,090,197,521, in each case, in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (filed by AGL with the SEC on March 1, 2013).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE."

STATE OF ILLINOIS

ORGANIZATION

The State is formally organized according to executive, legislative and judicial functions. The Governor is the chief executive of the State and is generally responsible for the administration of the government exclusive of the offices of other constitutionally-elected officials. The other constitutionally elected officials of the Executive Branch of the State include the Lieutenant Governor, the Attorney General, the Secretary of State, the Comptroller and the Treasurer. The Auditor General is a constitutional officer appointed and confirmed by the Senate.

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

The legislative power of the State is vested in the General Assembly, which is composed of the Senate and the House of Representatives. Both the Senate and the House of Representatives meet in annual sessions to enact, amend or repeal laws and to adopt appropriation bills. Pursuant to Illinois law, the election of all members of the Senate and House of Representatives 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 four-year/six-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. These collective bargaining agreements expired on June 30, 2012. The State is currently operating under the terms of these expired agreements. A successor collective bargaining agreement with the American Federation of State, County and Municipal Employees (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) has been negotiated and ratified by the union membership; however, this successor agreement remains subject to (i) execution of the agreement by the administration and the union and (ii) an appropriation of funds by the General Assembly. No assurances can be given regarding such execution or that sufficient appropriations will be approved. Successor collective bargaining agreements with other bargaining units remain under negotiation.

CONSTITUTIONAL PROVISIONS RELATING TO REVENUES AND EXPENDITURES

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

Article IV, Section 9 of the Illinois Constitution provides that the Governor may reduce or veto any item of appropriations in a bill passed and presented to him by the General Assembly. Portions of a bill not reduced or vetoed become law. An item vetoed is returned to the house in which it originated and may become law upon approval of three-fifths of the members of each house. An item reduced in amount may be restored to the original amount upon approval of a majority of the members elected to each house.

CONSTITUTIONAL PROVISIONS RELATING TO LONG-TERM BORROWING

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

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

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

CONSTITUTIONAL PROVISIONS RELATING TO REFUNDINGS

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

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

CONSTITUTIONAL PROVISIONS RELATING TO SHORT-TERM BORROWING

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

(c) State debt in anticipation of revenues to be collected in a fiscal year may be incurred by law in an amount not exceeding 5% of the State's appropriations for that fiscal year. Such debt shall be retired from the revenues realized in that fiscal year.

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

GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

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

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

WEBSITE INDEX

The following is the list of the websites referenced in this Official Statement. 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. 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 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. 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	http://www.state.il.us/budget/	Lead portal for operating budgets, economic and fiscal
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/Documents/Budget%20Book/FY%202014/FY2014IllinoisOperatingBudgetBook.pdf	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/departments/research-and-fiscal/financial-reporting-publications/comprehensive-annual-financial-report-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
Retirement Systems:		
TRS	www.trs.illinois.gov	Lead portal to Teacher's Retirement System
SURS	www.surs.com	Lead portal to State University Retirement System
SERS	www.state.il.us/srs	Lead portal to State Employee Retirement System
JRS	www.state.il.us/srs/judges/home_jrs.htm	Lead portal to Judges Retirement System
GAR	www.state.il.us/srs/gars/home_gars.htm	Lead portal to General Assembly Retirement System
College Illinois	http://www.isac.org/about-isac/financial-information.html	Link to the College Illinois actuarial report
Tax Handbook	http://www.ilga.gov/commission/lru/2012taxhandbook.pdf	Legislative Research Unit handbook on all Illinois taxes
Commission on Governmental Forecasting and Accountability	http://www.ilga.gov/commission/cgfa2006/Home.aspx	Lead portal to CGFA, contains its report on the financial condition of the Retirement Systems
Pension Reform Taskforce	http://www2.illinois.gov/gov/Pages/PensionReform.aspx	Lead portal to the Pension Reform Taskforce, contains their reports and other documents relating to pension reform
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, each of which runs from July 1 through June 30. Tables 2, 3, 4 and 6, unless otherwise noted, are based on information contained in detailed annual reports or records of the Office of the Comptroller. The Fiscal Year 2011 Comprehensive Annual Financial Report ("CAFR") may be found at the Comptroller's website. See "STATE OF ILLINOIS – WEBSITE INDEX." Tables 1, 1A, 5 and 6 are based on records of the GOMB and also include information drawn from various reports or records of the Comptroller. For purposes of Tables 3 and 4, expenditures are deemed to be recognized when a liability is incurred and recorded by the Comptroller; disbursements of cash are made when payment warrants are issued.

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

Tables 1 and 1A, which are reflected on the following pages, are a four fiscal year comparison of the general operating budget of the State and prepared on a "budget basis." The budgetary basis reflects the statutory provisions and associated policies for recognition of revenues, expenditures, transfers and outstanding liabilities, associated with the passage and adoption of the General Funds budget for each fiscal year. Budget basis statements differ materially from those prepared on a Generally Accepted Accounting Principles ("GAAP") basis, as further discussed below. Tables 1 and 1A, Table 2 and the State's CAFR, taken together, should be referenced for a more complete understanding of the financial statements as well as accompanying footnotes. See "GENERAL PURPOSE FINANCIAL STATEMENTS – TABLE 2," and "DISCUSSION AND ANALYSIS OF FISCAL YEARS 2011 THROUGH 2014".

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

(Dollars in Millions)

	Fiscal Year 2011 Actual Results (June 2012)	Fiscal Year 2012 Preliminary Results (January 2013)	Fiscal Year 2013 Enacted Budget (July 2012)	Fiscal Year 2013 Revised Budget (March 2013)	Fiscal Year 2014 Introduced Budget (March 2013)
SOURCES					
State Revenues					
Individual Income Tax	$ 11,225	$ 15,512	$ 15,273	$ 15,666	$ 16,073
Corporate Income Tax	1,851	2,461	2,550	2,656	2,897
Sales Tax	6,833	7,226	7,335	7,335	7,385
Public Utility Taxes	1,147	995	1,101	1,101	1,079
Cigarette Taxes	355	354	355	355	355
Inheritance Tax	122	235	242	227	169
Liquor Gallonage Taxes	157	164	163	166	168
Insurance Tax and Fees	317	345	285	315	325
Corporate Franchise Taxes and Fees	207	192	203	204	203
Other State Sources	706	694	698	682	870
Federal Revenues	5,386	3,681	4,231	4,151	4,178
TOTAL REVENUES	28,306	31,859	32,436	32,858	33,702
Transfers In [1]	1,857	1,763	1,962	2,066	1,928
TOTAL OPERATING SOURCES	**30,163**	**33,622**	**34,398**	**34,924**	**35,630**
USES					
Operating Budget Objectives [2]					
Provide quality education and opportunities for growth	9,300	8,945	8,594	8,632	8,247
Enhance the economic well-being of citizens	188	94	78	84	64
Protect the lives and property of citizens	1,649	1,533	1,433	1,434	1,555
Protect the most vulnerable among us	5,827	5,404	5,123	5,160	5,870
Improve access to and cost effectiveness of healthcare	6,971	6,845	6,804	6,804	7,060
Improve the quality of life for citizens	82	68	62	62	64
Improve the efficiency and fiscal stability of State Government	1,829	2,558	1,811	2,363	2,327
State Pension Contributions [3]	3,680	4,135	5,100	5,107	6,036
Unspent Budgeted Appropriations [4]	(350)	(374)	(650)	(300)	(500)
TOTAL EXPENDITURES [4]	29,175	29,209	28,355	29,344	30,723
Transfers Out [5]					
Statutory Transfers to Other State Funds	2,399	2,473	2,533	2,880	2,716
Debt Service Transfers: Capital Bonds	540	453	469	521	527
Debt Service Transfers: Pension Bonds (2003, 2010, & 2011)	1,667	1,607	1,552	1,552	1,655
Debt Service Transfers: Medicaid Borrowing	189	0	0	0	0
TOTAL OPERATING USES	**33,971**	**33,743**	**32,909**	**34,299**	**35,621**
EXCESS OPERATING SOURCES OVER/(UNDER) USES	**(3,808)**	**(121)**	**1,488**	**625**	**9**
OTHER FINANCIAL SOURCES (USES)					
Pension Obligation Bonds	3,680	0	0	0	0
Railsplitter - Tobacco Revenue Securitization	1,250	0	0	0	0
Short-Term Borrowing	1,300	0	0	0	0
Short-Term Borrowing Repayment	(1,322)	0	0	0	0
Inter-Fund Borrowing	496	0	0	0	0
Inter-Fund Borrowing Repayment	(10)	(356)	(132)	(132)	0
Budget Stabilization Fund Repayment	0	0	0	0	0
TOTAL OTHER FINANCIAL SOURCES (USES)	**5,395**	**(356)**	**(132)**	**(132)**	**0**
BUDGET BASIS SURPLUS/(DEFICIT)	**1,587**	**(477)**	**1,356**	**493**	**9**
FUND BALANCE - BEGINNING OF FISCAL YEAR	**(6,094)**	**(4,507)**	**(5,321)**	**(4,984)**	**(4,491)**
FUND BALANCE - END OF FISCAL YEAR	**$ (4,507)**	**$ (4,984)**	**$ (3,965)**	**$ (4,491)**	**$ (4,482)**

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

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

(Dollars in Millions)

	Fiscal Year 2011 Actual Results (June 2012)	Fiscal Year 2012 Preliminary Results (January 2013)	Fiscal Year 2013 Enacted Budget (July 2012)	Fiscal Year 2013 Revised Budget (March 2013)	Fiscal Year 2014 Introduced Budget (March 2013)
CHANGE IN BUDGET BASIS FUND BALANCE					
BUDGET BASIS FUND BALANCE - BEGINNING OF FISCAL YEAR	$ (6,094)	$ (4,507)	$ (5,321)	$ (4,984)	$ (4,491)
Budget Basis Surplus/(Deficit)	1,587	(477)	1,356	493	9
BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR	**(4,507)**	**(4,984)**	**(3,965)**	**(4,491)**	**(4,482)**
CHANGE IN CASH BALANCE					
GENERAL FUNDS CASH BALANCE - BEGINNING OF FISCAL YEAR	130	469	40	40	40
Budget Basis Surplus/(Deficit)	1,587	(477)	1,356	493	9
Increase/(Paydown) of Accounts Payable	(1,248)	48	(1,356)	(493)	(9)
GENERAL FUNDS CASH BALANCE - END OF FISCAL YEAR [6]	469	40	40	40	40
BUDGET STABILIZATION FUND CASH BALANCE - END OF FISCAL YEAR [7]	0	276	276	276	276
TOTAL CASH BALANCE - END OF FISCAL YEAR	**469**	**316**	**316**	**316**	**316**
CHANGE IN ACCOUNTS PAYABLE					
ACCOUNTS PAYABLE - BEGINNING OF FISCAL YEAR	6,224	4,976	5,361	5,024	4,531
Increase/(Paydown) of Accounts Payable due to Surplus/(Deficit) [8]	(1,248)	48	(1,356)	(493)	(9)
ACCOUNTS PAYABLE - END OF FISCAL YEAR	**4,976**	**5,024**	**4,005**	**4,531**	**4,522**
BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR					
General Funds Cash Balance - End of Fiscal Year	469	40	40	40	40
Less: Accounts Payable - End of Fiscal year	(4,976)	(5,024)	(4,005)	(4,531)	(4,522)
BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR [9]	**$ (4,507)**	**$ (4,984)**	**$ (3,965)**	**$ (4,491)**	**$ (4,482)**

FOOTNOTES - TABLE 1 & 1A

[1] Transfers In consists primarily of state lottery and gaming revenues as well as various fees and miscellaneous revenues, initially deposited into other state funds, and subsequently transferred to the General Funds, pursuant to statute.

[2] Beginning with the FY2012 budget, the State is implementing 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, fiscal year budgets prior to Budgeting for Results are presented in the same manner. More information is available on GOMB's website, see "STATE OF ILLINOIS - WEBSITE INDEX."

[3] General Funds pension contribution of $3,680 million for FY2011, was made through issuance of 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 $224 million in FY2011, initially paid from the General Funds to the State's five pension systems and prior to the bond issuances noted above, pursuant to a continuing appropriation; and (2) to the State's five pension funds for the remaining balance of General Funds pension contribution required appropriations for each fiscal year. In addition, General Funds pension contributions are net of payments funded by transfers from the State Pension Fund representing resources provided by the Unclaimed Property Trust Fund, pursuant to statute, in the following amounts: $63 million in FY2011 (actual), $230 million (actual) in FY2012, $150 million (appropriated) in FY 2013, and $150 million (proposed) in FY2014. For presentation consistency and comparison purposes, the FY2011 financial information in Table 1 reflects the amounts for the General Funds pension fund contributions as well as the General Obligation pension bond proceeds, but the actual cash flows in that fiscal year were through the Pension Contribution Fund, as described above.

[4] Total Expenditures equal fiscal year budgeted appropriations minus unspent agency appropriations. Unspent appropriations reflect unused spending authority of agencies by the close of the fiscal year and uncashed checks from prior fiscal years.

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

[6] End of Year General Funds Cash Balance equals the Beginning Cash Balance plus/(minus) the Budget Basis Surplus/(Deficit), plus/(minus) the Increase/(Paydown) 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 Reports. By statute, any intra-year cash flow borrowings transferred to the General Funds are to be reimbursed by a transfer back to the BSF by June 30th of that fiscal year. In addition, Public Act 97-44 authorized deferring the cash payment until FY2012 which occurred by July 11, 2012, consistent with that Act.

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

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

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

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

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

NOTES TO TABLES 1 AND 1A

The material in Tables 1 and 1A reflect the most current information available as of the date presented. Column titles reflect the fiscal year, the nature of information presented (e.g., actual results, preliminary unaudited results, revised budget, or introduced budget) and the date the respective reports were released. Data is drawn from and reconciled to the audited Traditional Budgetary Financial Report ("TBFR") that is prepared by the Illinois Office of the Comptroller, and audited by the Illinois Office of the Auditor General, using accounting practices prescribed or permitted by the State Comptroller Act, and which are materially different from GAAP as promulgated by the Government Accounting Standards Board ("GASB"), and reflected in the CAFR of the State. A preliminary copy of the Fiscal Year 2012 TBFR has been released on the Comptroller's website containing expenditures through November 2012. As Fiscal Year 2012 ends with the completion of the lapse period on December 31, 2012, a final version of the TBFR will be released with complete fiscal year information at a later date. 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 60 days after the end of the fiscal year (statutorily extended to December 31 for Fiscal Years 2010, 2011 and 2012).
  - The CAFR recognizes all expenditures that are incurred and paid by June 30, or are legal liabilities of that fiscal year, even if such amounts exceed the appropriations for that fiscal year.
  - "Section 25 Liabilities" – These liabilities reflect the difference in TBFR versus CAFR expenditures when insufficient appropriations exist for incurred liabilities. Section 25 refers to statutory authorization that permits the Comptroller to pay such liabilities after the subsequent fiscal year (See "OTHER GENERAL FUND LIABILITIES").
- *Statutory Transfers:* For purposes of enhancing inter-year comparability, Table 1 eliminates cash management transfers in and cash management transfers out that are of an intra-year nature and that offset each other by fiscal year end.
- *Pension Expenditures:*
  - The TBFR reflects statutorily required contributions. Amounts shown in Table 1 represent only the General Funds portion (approximately 89% of the total required contribution) as certified by each of the 5 State pension systems net of the debt service on the Fiscal Year 2003 General Obligations Pension Obligation Bonds pursuant to the authorizing statute, and net of transfers from the State's Unclaimed Property Trust Fund.
  - For additional differences between statutory funding requirements and GAAP, please see "PENSION SYSTEMS".
- *Scope of General Funds:*
  - The TBFR and Table 1 reflect the General Revenue Fund, the Common School Fund, the Common School Special Fund, the Education Assistance Fund, and the Budget Stabilization Fund.
  - The CAFR also includes Medicaid Provider Assessment Program Funds, as more fully described in Footnote 1 therein. See also "STATE FINANCIAL INFORMATION – GENERAL PURPOSE FINANCIAL STATEMENTS – TABLE 2 - *Note 1*" below.

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

General Purpose Financial Statements – Table 2

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

Note 1 – Cash/Budget to GAAP Perspective Difference

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

Note 2 – Cash to Budget Adjustments

The budgetary basis fund balance deficit of $4,507,409 equals the June 30, 2011 cash balance of $469,168 less cash lapse period expenditures and transfers-out of $4,976,577. Adjustments from the cash basis of accounting for fiscal year 2011 to the budgetary basis include adding fiscal year 2011 lapse period spending and subtracting fiscal year 2010 lapse period spending. Lapse period expenditures are payments between July 1 – August 31 for services received and for goods "encumbered" (ordered or contracted for) on or before June 30 and received no later than August 31 which are paid from fiscal year 2011 "lapsing accounts." In addition, interest on late payments through December 31 is included in lapse period transactions as Public Act 97-0075 extended the lapse period to December 31 for fiscal year 2011. Lapse period transfers are statutory transfers approved on or prior to June 30, 2011 but not made until after June 30, 2011.

Note 3 – Budget to GAAP Adjustments

A detail of the reconciliation of the budgetary basis vs. GAAP is presented in the Notes to Required Supplemental Information in the Comprehensive Annual Financial Report. Significant differences noted in the financial statements include recording accounts receivable, deferred revenue and accounts payable at year-end. Accounts payable include liabilities which will be paid from future year appropriations (e.g., income tax refunds, Medicaid and group health medical reimbursements and payments to local school boards for State Board of Education reimbursement programs). There were also classification differences between the budgetary basis and GAAP. Interest paid on income tax refunds is reported as general government expenditures for GAAP reporting purposes and as a reduction of revenues in the budgetary presentation. In addition, transfers from the General Revenue Fund to the Common School Fund and from the Common School Special Account to the Common School Fund, which are reported on the budgetary basis, have been eliminated for GAAP reporting purposes.

Note 4 – Restatement

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

DISCUSSION AND ANALYSIS OF FISCAL YEARS 2011 THROUGH 2014

The information below summarizes the Fiscal Year 2011 through the Introduced Fiscal Year 2014 budgets, 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 percent, near the highest in the nation, but by year-end had decreased on par with national employment rate of 9.1 percent. Over the same period, non-farm payroll employment increased by 77,000 with consistent month to month growth over the fiscal year. Compared to the declines experienced in Fiscal Year 2010, personal income grew by 5.8% in 2011, coinciding with decreasing unemployment and higher economic activity.

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

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

BUDGET ANALYSIS

Revenues

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

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

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

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

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

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

Expenditures

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

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

Cash Flow

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

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

The final and audited Comprehensive Annual Financial Report and Traditional Budgetary Financial Report (TBFR) for Fiscal Year 2011 are available on the Comptroller's website (See "Website Index").

The final TBFR reports a Budget Basis Fund Balance deficit for the General Funds of $4,507 million whereas Table 1 previously reflected this deficit as $4,679 million. In addition, the final TBFR reports Accounts Payable in the amount of $4,976 million whereas Table 1 and Table 1A previously reflected Accounts Payable in the amount of $5,148 million. The difference between these amounts reported in the final TBFR and the prior versions of Table 1 and Table 1A results from the TBFR's reporting Transfers In, as of June 30, 2011, of approximately $172 million from the Capital Projects Fund that were not reflected on Table 1 and Table 1A.

FISCAL YEAR 2011 CAPITAL BUDGET

The Fiscal Year 2011 Capital Budget was a continuation and extension of the Illinois Jobs Now! program. The total Fiscal Year 2011 Capital Budget was $28,236 million which takes into account 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, and $1 million for State facilities. An additional $203 million in bond financed appropriations for the following: $146.5 million for highway, road, bridge, rail, and airport construction; $22.5 million for Energy and Environment projects; and $34 million for economic development. Collectively, total new appropriations from bond financed and current revenue sources for Fiscal Year 2011 were $2,896 million.

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

FISCAL YEAR 2012 (JULY 2011 – JUNE 2012) – PRELIMINARY RESULTS

ECONOMIC CONDITION

The Illinois unemployment rate had decreased from the height of the recession and reached a low of 8.7% prior to the beginning of Fiscal Year 2012. However, the Illinois unemployment rate climbed to 9.5% in July 2011. With continuing uncertain economic conditions and the downgrade of the U.S. credit rating by Standard and Poor's in August 2011, the Illinois unemployment rate reached a high of 10.2%. Employment conditions have since improved within the State as unemployment decreased over the second half of Fiscal Year 2012 and ended the year at 8.6%, 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.

BUDGET ANALYSIS

Revenues

Total Operating Revenues and Transfers In increased by $3,460 million or 11.5% from Fiscal Year 2011 to $33,622 million. Growth in total fiscal year revenues is primarily attributed to higher individual and corporate income tax receipts that increased by $4,287 million (38.2%) and $610 million (32.9%), respectively, over Fiscal Year 2011. This reflects a full year of tax revenues under higher income tax rates that took effect in the middle of the previous fiscal year. Additionally, income tax revenues were higher than anticipated in the last two quarters of the Fiscal Year as March and April withholding receipts exceeded expectations. Sales tax revenues grew by $393 million or 5.7% to $7,226 million as strong sales activity and higher motor fuel prices contributed to higher collections in Fiscal Year 2012. All other State source receipts on a combined basis decreased by $32 million or 1.1%.

Federal revenues decreased by $1,705 million or 31.7% from Fiscal Year 2011 to $3,681 million. The decrease is attributed to a variety of factors including, the end of Federal stimulus dollars paid to the State under ARRA, the acceleration of Medicaid payments from Fiscal Year 2012 to Fiscal Year 2011 to take advantage of the enhanced Federal matching dollars available until June 30, 2011, a shift of Medicaid spending to other State funds and subsequent decrease in matching Federal dollars, and a reduction in Medicaid appropriations over the previous fiscal year resulting in decreased Federal matching revenues (See "OTHER GENERAL FUND LIABILITIES"). Additionally, Medicaid matching revenues were deducted by the Federal government from back payments owed by the State on Medicare premium payments for Medicare/Medicaid dual eligible enrollees. Transfers In decreased by $94 million or 5.1% due to a decrease in transfers from the Capital Projects Fund over the previous fiscal year.

Expenditures

Fiscal Year 2012 Total Operating Expenditures and Transfers Out, excluding Inter-Fund Borrowing repayments, are estimated to decrease by $228 million or 0.67% over Fiscal Year 2011 to $33,743 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.

Compared to the two previous fiscal years, the State pension contribution was made from General Funds and not through bond financing. The State Pension contribution from General Funds for Fiscal Year 2012 is $4,135 million which is $455 million or 12.4% higher than previous fiscal year. Total Transfers Out (including repayment of inter-fund borrowing) are expected to increase by $83 million or 1.7% to $4,888 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 offset by debt service obligations as additional bonds were retired and the State undertook a refunding of certain outstanding General Obligation bonds.

Total spending for the fiscal year is estimated to be $2,719 million below the spending cap that was established as part of the income tax increase under Public Act 96-1496. The State is required to stay below the spending limitation for Fiscal Year 2012 of $36,818 million. If final expenditures were to exceed the spending cap, as determined by the Auditor General of the State, the individual and corporate income tax rates would revert back to 3% and 4.8%, respectively, or prior to the rate increases established by Public Act 96-1496. Based on current estimates of expenditures for Fiscal Year 2012, the Budget Basis Operating Deficit is estimated to be $477 million.

Cash Flow

Compared to the Fiscal Year 2011 budget, Fiscal Year 2012 resources were derived solely from State and federal sources and no other one-time revenue enhancements, including no inter-fund, short-term or pension obligation borrowings. As in the previous two fiscal years, the lapse period for Fiscal Year 2012 was extended under Public Act 97-732 to December 31st 2012. Extension of the lapse period allows for payment of Fiscal Year 2012 bills through the end of December for services incurred prior to June 30th. The estimated Budget Basis accounts payable at the end of Fiscal Year is $5,024 million.

Reflected in Other Financial Sources (Uses) section of Table 1, payments of $356 million were made to other State funds for Inter-Fund Borrowing performed in Fiscal Year 2011. Under Public Act 97-44, the repayment of the Budget Stabilization Fund borrowing in Fiscal Year 2011 was deferred to Fiscal Year 2012 to allow maximum available resources for Medicaid purposes before expiration of the enhanced federal match under ARRA. 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 is estimated to be $477 million. The deficit was financed through an increase in accounts payable and use of previous fiscal year end cash balances.

FISCAL YEAR 2012 CAPITAL BUDGET

The total Fiscal Year 2012 Capital Budget is $26,047 million which takes into account 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 repurposed, including $309 million for State facilities, $17 million for energy, and $33 million for air transportation. Collectively, total new appropriations from bond financed and current revenue sources for Fiscal Year 2012 were $2,978 million.

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

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

ECONOMIC CONDITION

Employment in Illinois continued its positive trend by adding 136,300 non-farm payroll jobs from the end of calendar year 2009 through the end of calendar year 2012. Total non-farm payroll jobs are projected to continue to gradually increase in Fiscal Year 2013. The Illinois Department of Employment Security projects net payroll to grow by approximately 49,200 jobs, or 0.9% annual growth. At the end of Fiscal Year 2012, the unemployment rate was 9.1% and as of January 2013 the unemployment rate was 9.0%, as reported by the Illinois Department of Employment Security. Fiscal year 2013 Illinois wage and salary disbursement is currently projected to increase 3.0%, based on projections from the Illinois Department of Revenue. Median prices and sales volumes of single-family homes in Illinois are projected to increase in Fiscal Year 2013 by 2.8% and 13.7%, respectively. Housing starts are expected to increase by 46.3% and residential building permits are expected to increase by 38.2% for Fiscal Year 2013.

BUDGET ANALYSIS

Revenues

Total State Operating Revenues and Transfers In are estimated to total $34,924 million for the Fiscal Year 2013 Revised Budget, a $1,302 million or 3.9% increase over Fiscal Year 2012. State revenue sources, including, but not limited to, the State's three primary sources (individual income tax, corporate income tax and sales tax) are projected to total $28,707 million. Due to stronger than anticipated receipts in the second half of Fiscal Year 2012, Individual Income Tax estimates were revised upward by $393 million from the Enacted Budget. The underlying growth in wages and salaries for Fiscal Year 2013 is estimated to be 2.9% from the previous fiscal year. Receipts projections reflect 9.75% of total individual income tax revenues diverted to the Income Tax Refund Fund for payment of individual income tax refunds.

Corporate income tax revenues are projected to total $2,656 million, a 7.9% increase over Fiscal Year 2012. This projection reflects 14% of total corporate income tax revenues diverted to the Income Tax Refund Fund for payment of corporate income tax refunds. Fiscal Year 2013 corporate income tax receipts through January 2013 have exceeded initial forecasts from the Enacted Budget by approximately 27.5% year-to-date, mostly due to higher than estimated payments and a large audit settlement of $33 million. As a result, the Fiscal Year 2013 estimate was revised to reflect an increase of $106 million from the Enacted Budget. Sales taxes are forecasted to total $7,335 million in Fiscal Year 2013, an annual increase of $109 million or 1.5%. Strong projected motor vehicle and retail sales combined with high motor fuel prices are factored into increased sales tax revenue projections. All other State sources are projected to increase by $71 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, are projected to increase by $470 million or 12.8% to $4,151 million from Fiscal Year 2012. This is due to an increase in Fiscal Year 2012 Medicaid expenditures in the lapse period resulting in increased federal match monies for Fiscal Year 2013. As State revenues are recognized on a cash basis, federally matched monies received for expenditures occurring after June 30th will be recorded in the following fiscal year. Additionally, a backlog of Medicare premium payments owed by the State for Medicare/Medicaid dual-eligible enrollees resulted in a reduction by the federal government of the State's Medicaid match monies in Fiscal Year 2012. Transfers In are projected to increase by $303 million, or 17.1%, to $2,066 million. This is primarily due to $264 million in transfers from the newly created Backlog Payment Fund (Public Act 97-685) for the payment of non-Medicaid related outstanding bills offset by small reductions in other statutory transfers.

Expenditures

Total Operating Expenditures and Transfers Out for the Fiscal Year 2013 Revised Budget are estimated to increase by $556 million or 1.6% to $34,299 million over Fiscal Year 2012 estimated expenditures, excluding Inter-Fund Borrowing repayments. Fiscal year spending includes $603 million in supplemental appropriations passed in February 2013 in House Bill 190, including $550 million for the State group health insurance program initially funded for only the first six months of the fiscal year.

The Governor and the General Assembly enacted reforms to the State Medicaid program totaling $2.7 billion. Due to an increasing Medicaid liability in Fiscal Year 2013 and beyond, reforms were enacted to reduce costs and add new revenue sources to address the $2.7 billion in additional Medicaid liability in Fiscal Year 2013. The Medicaid program liability in Fiscal Year 2013, absent these reforms, would have increased by $2.7 billion. Total reforms include: $1.6 billion in 62 spending item reductions, utilization controls and provider rate cuts; $1 per pack cigarette tax increase for $700 million in new revenue for Medicaid funding, a new hospital assessment program that generates $100 million in annual revenues; and $300 million allocated to Medicaid from increased State General Funds revenues. Present estimates for increased cigarette tax revenues, including Federal matching dollars, are approximately $67 million below original estimates. 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 are estimated to total $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 as four of the five systems conducted five-year experience reviews of their actuarial assumptions, as required under State pension funding laws, resulting in adjustments to certain assumptions and increased fiscal year contribution requirements.

Total Transfers to other State funds in Fiscal Year 2013 are currently $2,880 million, or an increase of 16.5% over Fiscal Year 2012. This includes additional transfers to the Healthcare Provider Relief Fund of $500 million for the total payment of the $1 billion in outstanding Medicaid bills, including federal matching dollars. Statutory Transfers to other State funds were increased by $347 million in the Fiscal Year 2013 Revised Budget from the Enacted Budget. 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. This transfer, along with $13 million in transfers to other State funds, have not yet been authorized in the Fiscal Year 2013 budget as of this Official Statement, but are expected to be addressed by the General Assembly in the Spring session. Additionally, $100 million in transfers were authorized to the Worker's Compensation Fund designated for employee benefit payments.

Estimated transfers for capital bonds debt service have been revised from the Enacted Fiscal Year 2013 Budget to reflect lower than anticipated revenues from other State funds to fund debt service resulting in a higher debt service obligation for the General Funds.

The State is required to stay below the fiscal year spending cap established under Public Act 96-1496 of $37,554 million. Based on current Fiscal Year 2013 estimates, State spending will be $3,123 million below this cap. If final expenditures were to exceed the spending cap, as determined by the Auditor General of the State, the individual and corporate income tax rates would revert back to 3% and 4.8%, respectively, or prior to the rate increases established by Public Act 96-1496.

Cash Flow

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

Medicaid bills. The transfer will be cycled repeatedly over the course of the fiscal year under the 50% Federal Medical Assistance Percentage match provided to Illinois until $500 million in federal matching monies is achieved. This will allow for the payment of $1 billion in outstanding State Medicaid bills reducing the State's payables backlog classified under Section 25 Liabilities. Appropriations were made to the Illinois Office of the Comptroller in the amount of $264 million to be deposited in to the newly created Backlog Payment Fund which will be dedicated to the payment of outstanding non-Medicaid bills. In total, in Fiscal Year 2013 budgeted appropriations and transfers of approximately $1.3 billion will be dedicated for the payment of outstanding payables in addition to any fiscal year budget surplus.

As mentioned above, supplementary legislation is needed to enact additional budgetary transfers which have not passed as of the date of this Official Statement. Any legislation ultimately adopted is expected to call for additional amounts to be transferred out of the General Funds. This includes $151 million to the Healthcare Provider Relief Fund which is a component of the $2.7 billion dollar budget gap for Medicaid reforms discussed above. Should this transfer not be authorized, the State would not meet its statutory requirement under Public Act 97-691 to reduce certain Section 25 liabilities under the Department of Healthcare and Family Services below the required cap of $700 million by June 30, 2013. This will also result in an increase in the end of year Section 25 liabilities by approximately $300 million. Should these transfers not be approved in Fiscal Year 2013, the end of year Budget Basis Fund Balance would also increase by $163 million.

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

The Revised Fiscal Year 2013 Budget reflects a $493 million surplus of total receipts over total disbursements. Any final fiscal year surplus is expected to be dedicated to the payment of outstanding payables of the State, which are estimated, before the additional appropriation discussed above, at $4,531 million (on a budgetary basis) at the end of Fiscal Year 2013.

Budget estimates, projections and forecasts presented in the Revised Budget are based solely on information available as of the date of this Official Statement and are subject to subsequent revisions.

Fiscal Year 2013 Capital Budget

The total new appropriation for Fiscal Year 2013 from both current revenues and bond funds is $1,987 million. This includes $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 are $1,968 million. New bond fund appropriations for economic development are $19 million.

The remainder of the Fiscal Year 2013 Capital Budget contains prior year re-appropriations consisting of both bond funded and current revenue sources totaling $23,156 million. The total bond-financed re-appropriations included in the Fiscal Year 2013 Capital Budget are $14,361 million, which includes General Obligation 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 is $8,794 million.

Fiscal Year 2014 (July 2013 – June 2014) – Introduced Budget

The Governor introduced the Fiscal Year 2014 operating and capital budgets on March 6, 2013. The date of submission for the introduced budget was deferred pursuant to House Bill 156 requiring the Governor to submit a State budget no later than the first Wednesday in March of 2013. The full operating and capital budgets may be found at the Governor's Office of Management and Budget website. See "STATE OF ILLINOIS – WEBSITE INDEX." The House of Representatives passed House Resolution 83 on March 5, 2013 estimating total available revenues in Fiscal Year 2014 to be $35,081 million. This estimate is $549 million less than what is presented in Governor's Fiscal Year 2014 Introduced Budget, as discussed below. Under the State constitution, appropriations for a fiscal year may not exceed funds estimated to be available during that year. The ultimate budget, including estimated fiscal year resources and agency appropriations, will be negotiated between the Governor and the General Assembly during the Spring 2013 session.

BUDGET ANALYSIS

Revenues

The Fiscal Year 2014 budget forecasts total General Fund revenues from all sources and Transfers In at $35,630 million, an increase of $706 million or 2.0% from the Fiscal Year 2013 Revised Budget. State sources are projected to total $29,524 million, an increase of 2.9%, driven by growth in the State's individual and corporate income taxes. Individual income tax receipts are projected to increase by $407 million, or 2.6%, largely due to an increase in base revenues as Illinois wages and salaries are expected to grow 3.5% in Fiscal Year 2014. Additionally, various tax provision changes will impact gross Individual Income Tax gross receipts. Both the State Earned Income Credit will increase to 10% of the federal tax rate and the personal exemption granted to individuals will increase in calendar year 2013, exerting slight downward pressure on gross receipts.

Corporate income tax receipts are projected to grow by $241 million or 9.1% from Fiscal Year 2013. Baseline receipts are expected to decline by $30 million from Fiscal Year 2013. However, reversion in Fiscal Year 2014 from the 100% federal expensing policy, previously allowing firms to claim depreciation for assets expensed at 100%, will result in a net increase in receipts between Fiscal Year 2013 and Fiscal Year 2014.

Diversion rates to the Income Tax Refund Fund will be reduced below Fiscal Year 2013 levels to 9.0% of individual income tax collections and 12.0% of corporate income taxes, reflecting the elimination of the backlog of business income tax refunds. All other fiscal year budget State source revenues, including sales taxes, are projected to increase by $169 million over the revised Fiscal Year 2013 Budget forecast.

Total Federal Revenues are projected to grow modestly at 0.7% to $4,178 million as federal matching revenues for Medicaid, based on program spending, are projected to be level with the previous fiscal year. Transfers In from other State funds are expected to decrease by $137 million to $1,928 million as transfers from the Backlog Payment Fund were not budgeted in Fiscal Year 2014. Additionally, excess balances in the Income Tax Refund Fund totaling $155 million from the previous fiscal year will be transferred into the General Funds at the beginning of Fiscal Year 2014.

Expenditures

Total State expenditures in the proposed budget, including Transfers Out to other State funds, are estimated to be $35,621 million, an increase of $1,322 million or 3.9% from the previous fiscal year. Increased expenditures in the proposed budget are attributed to higher pension costs in Fiscal Year 2014. State General Funds pension contributions to its five pension systems are estimated to total $6,036 billion, an increase of $929 million or 18.2% over the previous fiscal year. This increase is primarily due to changes in actuarial assumptions by the Teachers' Retirement System (TRS), the State's largest pension system, as part of their five-year experience actuarial review required under State pension funding laws. As part of this experience review, TRS revised the System's discount rate assumption from 8.5% to 8.0%.

Certain significant reductions were made in other areas of the budget to offset the increased costs in State pension contributions. Education funding, reflected under the operating objective "Provide quality education and opportunities for growth" in Table 1, is reduced by $385 million, or 4.5%, from the previous fiscal year. This includes funding reductions to the Illinois State Board of Education of $309 million from Fiscal Year 2013 and 4.6% in reductions across all State universities. Budgeted appropriations for each of the constitutional offices, including the Office of the Governor, are reduced by 5%.

The state group health insurance program, which in the past has been appropriated below actual fiscal year liability (See "OTHER GENERAL FUND LIABILITIES"), is appropriated in full in the Introduced Fiscal Year 2014 Budget. This is based on the current estimate of the fiscal year liability, including the terms specified in the tentative collective bargaining agreement, and assuming that this agreement is ratified. Medicaid reforms enacted in Spring 2012 legislative session known as the "SMART" Act (Public Act 97-689) will continue to be effective as programmatic reductions and increased revenues from cigarette taxes will be operative in addressing the Fiscal Year 2014 Medicaid liability. Appropriations proposed as part of the Introduced Budget are estimated to meet the full fiscal year Medicaid liability.

Transfers Out to other State funds is expected to decrease by $164 million, or 5.7%, to $2,716 million. Transfers to the Local Government Distributive Fund, Public Transportation Fund and Downstate Public Transportation Fund, the three largest transfer obligations excluding debt service, were capped at Fiscal Year 2012 levels and are below the expected Fiscal Year 2013 transfer amounts. The total Fiscal Year 2014 estimated reduction is $143 million and is dependent on statutory changes that will be required to enact the proposed caps, as determined by statutory formula.

Debt Service transfers for capital bonds are projected to increase in Fiscal Year 2014 as the State anticipates to sell certain bonds authorized under the Illinois Jobs Now! capital program specifically supported by resources in the General Fund. Bonds sold in prior fiscal years under the Illinois Jobs Now! program have been generally supported by resources in the Capital Projects Fund and the Road Fund.

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. Based on proposed expenditures in the Fiscal Year 2014 Introduced Budget, State spending will be $2,684 million below this cap. If final expenditures were to exceed the spending cap, as determined by the Auditor General of the State, the individual and corporate income tax rates would revert back to 3% and 4.8%, respectively, or prior to the rate increases established by Public Act 96-1496.

Cash Flow

The Fiscal Year 2014 Introduced Budget meets the State's constitutional mandate for a balanced budget, which requires proposed expenditures to be less than or equal to the estimated funds available for the fiscal year. The budget does not include any non-recurring financial sources, including any cash-flow borrowings and debt financings. Further, the proposed budget does not dedicate any fiscal year resources to other financial uses or repayments for past interim borrowings, including inter-fund borrowing repayments which were completed in Fiscal Year 2013 as of the date of this Official Statement.

Program liabilities in Fiscal Year 2012 and Fiscal Year 2013 for the Department of Human Services and Department of Aging exceeded budgeted appropriations and resulted in increased accounts payable and Section 25 liabilities. The Introduced Fiscal Year 2014 budget appropriates an additional $170 million for the Department of Human Services and $142 million for the Department of Aging for the payment of these outstanding bills.

Revenue projections are based on the forecasting models of the Illinois Department of Revenue and Illinois Department of Employment Security. Any subsequent revenue estimates adopted by the General Assembly may be used in the determination of fiscal year expenditure levels and in the development of the final Fiscal Year 2014 budget.

The Introduced Fiscal Year 2014 Budget projects a $9 million surplus of receipts over disbursements. Any final fiscal year surplus is expected to be dedicated to the payment of outstanding payables of the State, which are estimated to be $4,531 million (on a budgetary basis) at the beginning of Fiscal Year 2014.

FISCAL YEAR 2014 CAPITAL BUDGET

The total recommended new appropriation for Fiscal Year 2014 from both current revenues and bond funds is $3,339 million. This includes $2,694 million for highway, road, bridge, rail, inland ports and airport construction, as well as $561 million for environmental projects and $13 million for State facilities from current revenues. Collectively, total proposed new appropriations from current revenue sources for Fiscal Year 2014 are $3,268 million, while new bond fund appropriations for aeronautics projects total $71 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 $17,997 million. The total bond-financed re-appropriations included in the Fiscal Year 2014 Capital Budget are $10,871 million, which includes General Obligation Bonds in the amount of $8,890 million and Build Illinois Bonds in the amount of $1,981 million. Total capital re-appropriations funded out of current revenues is $7,126 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 General Purpose Financial Statements prepared according to GAAP and statements of budgetary fund balances and changes in budgetary fund balances for all fund groups. Under Public Act 97-408, the Comptroller must publish the CAFR for each fiscal year by December 31 of each year or publish unaudited financial statements and a written explanation to State leadership explaining the reasons for the delay beginning with the CAFR for Fiscal Year 2012.

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TABLE 3
CASH RECEIPTS AND DISBURSEMENT[1] - GENERAL FUNDS[2]
FISCAL YEARS 2008-2012

($ IN MILLIONS)

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

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

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

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

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

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

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

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

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

[2] Reflects debt service on GO Bonds.

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TABLE 5
GENERAL FUNDS APPROPRIATIONS[1,2]
FISCAL YEARS 2010-2014
($ IN MILLIONS)

	FY10 Actual	FY11 Actual	FY12 Preliminary	FY13 Revised	FY14 Introduced
CATEGORY - BY STATE AGENCY					
State Board of Education	$7,325	$7,020	$6,750	$6,550	$6,241
Higher Education	2,233	2,159	2,609	2,441	2,347
Healthcare & Family Services (Public Aid)	7,853	7,641	6,845	6,804	7,060
Revenue	143	139	126	111	115
Human Services	4,047	3,901	3,459	3,267	3,606
Corrections	1,177	1,210	1,216	1,131	1,243
Children & Family Services	865	847	813	732	716
Central Management Services	90	96	1,487	1,132	1,382
State Police	287	277	274	248	251
Other Agencies	2,334	2,556	1,869	2,122	2,225
State Agencies Appropriations	**$26,354**	**$25,845**	**$25,448**	**$24,537**	**$25,186**
Unspent Appropriations (Salvage)	-$896	-$350	-$374	-$300	-$500
Net Appropriations (Spending)	**$25,458**	**$25,495**	**$25,074**	**$24,237**	**$24,686**
CATEGORY - BY BUDGET OUTCOMES[3]					
Provide a quality education and opportunities for growth	$9,663	$9,300	$8,945	$8,632	$8,247
Enhance the economic well-being of citizens	176	188	94	84	64
Protect the lives and property of citizens	1,518	1,649	1,533	1,434	1,555
Protect the most vulnerable among us	5,940	5,827	5,404	5,160	5,870
Improve access to and cost effectiveness of healthcare	7,853	6,971	6,845	6,804	7,060
Improve the quality of life for citizens	76	82	68	62	64
Improve the efficiency and fiscal stability of State Government	1,127	1,829	2,558	2,363	2,327
Budget Outcomes Appropriations	**$26,354**	**$25,845**	**$25,448**	**$24,537**	**$25,186**
Unspent Appropriations (Salvage)	-$896	-$350	-$374	-$300	-$500
Net Appropriations (Spending)	**$25,458**	**$25,495**	**$25,074**	**$24,237**	**$24,686**

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

[2] General Funds Appropriations presented by outcomes and agencies do not include pension contributions.

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

TABLE 6

CASH BALANCES BY FUND CATEGORY: FY2002-FY2013[1]
($ IN MILLIONS)

FUND CATEGORY	FY2003 *	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
General Funds	$ 317	$ 182	$ 497	$ 590	$ 642	$ 141	$ 280	$ 130	$ 469	$ 40	$ -
Highway Funds	701	522	733	926	747	814	688	805	999	1,111	-
Special State Funds	1,924	2,618	2,327	2,433	2,734	2,741	2,574	2,043	2,270	2,934	-
Bond Financed Funds	252	199	228	533	203	77	68	2,226	1,449	1,460	-
Debt Service Funds	1,050	624	648	626	638	649	654	920	1,308	1,322	-
Revolving Funds	48	127	91	69	63	63	29	41	41	70	-
State Trust Funds	1,301	1,356	1,619	1,944	2,220	2,520	2,357	1,881	1,989	2,307	-
June 30th amounts (End of Fiscal Year)	**$ 5,592**	**$ 5,628**	**$ 6,142**	**$ 7,122**	**$ 7,247**	**$ 7,005**	**$ 6,650**	**$ 8,047**	**$ 8,525**	**$ 9,243**	**$ -**

FUND CATEGORY	FY2003 *	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
General Funds	$ 163	$ 346	$ 251	$ 486	$ 429	$ 589	$ 215	$ 150	$ 186	$ 144	$ 138
Highway Funds	750	456	505	711	619	787	629	767	806	976	1,133
Special State Funds	1,947	3,104	2,048	2,280	2,438	2,788	2,558	2,382	2,171	2,523	3,391
Bond Financed Funds	609	323	128	63	226	91	19	672	2,126	633	395
Debt Service Funds	541	966	460	481	517	519	514	539	821	698	946
Revolving Funds	47	155	116	65	54	44	50	27	68	76	64
State Trust Funds	1,259	1,490	1,683	1,769	2,130	2,128	2,317	1,995	1,885	1,939	2,505
December 31st amounts (End of 2nd Quarter)	**$ 5,315**	**$ 6,839**	**$ 5,191**	**$ 5,855**	**$ 6,413**	**$ 6,946**	**$ 6,303**	**$ 6,532**	**$ 8,063**	**$ 6,990**	**$ 8,571**

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

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

ADDITIONAL BUDGET PROJECTIONS AND FINANCIAL INFORMATION

GOMB is required, pursuant to Public Act 96-1354, to prepare annually and submit to the General Assembly a Three Year Budget Projection. This report is intended to provide additional information on the State's economic and fiscal objectives and fiscal policy intentions for the succeeding three years. GOMB also publishes a quarterly unaudited report of revenues, expenditures, and other financing sources of major State funds. These reports are prepared primarily on a modified accrual basis and are available on GOMB's website provided in "STATE OF ILLINOIS – WEBSITE INDEX" herein. The most recent Three Year Budget Projection was released on January 11, 2013. Please note that for fiscal years 2015 and 2016, the Three Year Budget Projection released on January 11, 2013 does not fully take into account all reductions in federal revenues, including federal Medicaid matching funds, that would occur to the extent that the illustrative across-the-board expenditure cuts shown therein were enacted into law. If all reductions in federal revenues had been taken into account, additional expenditure cuts (in excess of the 5.7% and 13.6% in reductions for fiscal years 2015 and 2016, respectively) would have been shown in the Three Year Budget Projection so as to produce a balanced budget for fiscal years 2015 and 2016.

TAX REVIEW

The State of Illinois levies taxes or fees on several categories of goods, services and revenues. These range from "Automobile Rental Occupation and Use Tax" to "Video Gaming Tax". A complete discussion with history and revenues generated can be found in *The Illinois Tax Handbook for Legislators, 27th Edition March 2012* published annually since 1985 by the Legislative Research Unit. (See "STATE OF ILLINOIS – WEBSITE INDEX" for this link.) The discussion below is excerpted from the Handbook.

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

INDIVIDUAL INCOME TAXES ("IIT")

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

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

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

- 82.7% goes to the General Revenue Fund.
- 10% goes to the Local Government Distributive Fund 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. Illinois does have the so called "Amazon" tax whereby out-of-state sellers who have offices or other facilities within the State (warehouses and reshipping points included) can be required by the Department of Revenue to collect these taxes on sales within the State.

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

CORPORATE INCOME TAX ("CIT"):

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

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

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

- 82.7% goes to the General Revenue Fund.

- 10% 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:
  - 45.6% to the State Construction Account Fund (37%) and the State Road Fund (67%).
  - 54.4% to municipalities by population (49.1%), Cook County (16.74%), Other Counties (19.27%) and townships/road districts (15.89%).

NOTE 1: INCOME TAX REFUND FUND:

The Income Tax Refund Fund is funded by a portion of both the CIT (17.5% of gross CIT receipts for 2010 through 2012) and IIT (9.75% of gross receipts in 2010 reduced to 8.75% for 2011 and 2012) to fund tax refunds due to tax filers. The Fiscal Year 2013 Budget has a CIT rate of 14.0% and an IIT rate of 9.75%. The rates are adjusted by formula, which formula can and has frequently been changed by the General Assembly. Priority of payment has been to pay IIT refunds first followed by CIT refunds. If funds are left over in the Income Tax Refund Fund they are returned to the General Revenue Fund. If insufficient funds are available in the Income Tax Refund Fund, CIT refunds are held until sufficient funds become available which may be in a subsequent fiscal year. Currently there are no CIT refunds being held for payment. Part of the Income Tax Refund Fund is also used to "true up" payments due to local governments under the Personal Property Tax Replacement Tax. Should insufficient funds be available in the Income Tax Refund Fund to pay these "true up" payments, they must be paid, by statute, from deposits into the Income Tax Refund Fund in the first quarter of the subsequent fiscal year.

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

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

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

MONEY PAID TO THE STATE UNDER PROTEST

Money paid to the State under protest is required to be placed by the Treasurer in a special fund known as the Protest Fund ("Protest Fund"). Corporate income tax, personal property replacement tax, liquor tax and insurance privilege tax comprise approximately 70.0% of the receipts into this fund. After 30 days from the date of payment into the Protest Fund, the money is to be transferred from the Protest Fund to the appropriate fund in which it would have been deposited had there been no protest. However, the party making the payment under protest may, within that 30-day period, file a complaint and secure a temporary injunction restraining the transfer from the Protest Fund. Under the injunction, the money is to remain in the Protest Fund until a final order or decree of a court determines the proper disposition of the money. As of March 5, 2013, the total Protest Fund balance was $185.6 million.

INDEBTEDNESS

SHORT-TERM DEBT

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

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

The following table summarizes the State's recent history of issuing short-term debt. The State has no short-term debt currently outstanding.

TABLE 7
SHORT TERM CERTIFICATES ISSUED
($ Millions)

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

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

GENERAL OBLIGATION BONDS

GO Bonds of the State may be authorized by a vote of three-fifths of the members of each house of the General Assembly or by a majority of the voters at a general election. The Bond Act consolidated the authorization contained in prior bond acts into a single act and currently authorizes the issuance of multiple capital and special purpose GO Bonds in the aggregate amount of $28,799,577,443 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 April 10, 2013.

TABLE 8
GENERAL OBLIGATION BONDS
(As of APRIL 10, 2013)

Authorization Category	Amount Authorized[1]	Amount Issued	Authorized Unissued	Amount Outstanding
Multi-purpose	$28,549,577,443	$21,076,630,576	$7,472,946,867	$8,437,809,876
Special-purpose	250,000,000	246,095,000	3,905,000	0
Refunding Bonds[2]	4,839,025,000	7,868,564,239	1,055,906,098	3,783,118,902
Subtotal	**$33,638,602,443**	**$29,191,289,815**	**$8,532,757,965**	**$12,220,928,778**
Pension Bonds	17,562,348,300	17,166,000,000	396,348,300	14,786,400,000
Total	**$51,200,950,743**	**$46,357,289,815**	**$8,929,106,265**	**$27,007,328,778**
Currently Authorized less Refunding[3]	**$46,361,925,743**			

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

2 The State is authorized to issue $4,839,025,000 of GO Bonds, at any time and from time to time outstanding, for the purpose of refunding any outstanding GO Bonds. The authorized unissued amount of refunding bonds is the difference betw een the amount authorized and the amount outstanding.

3 Section 2 of the General Obligation Bond Act (30 ILCS 330/2) states that the aggregate authorized amount of general obligation bonds (not counting authorization for refunding bonds) is $47,092,025,743. The difference is attributable to a miscalculation in the Act w ith respect to the $698,200,000 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 April 4, 2013, a total of $1,029.7 million was available in the GOBRI Fund. The amount of outstanding GO Bonds shown above has not been reduced by the remaining amounts otherwise available in the GOBRI Fund. For additional information, see "TRANSFERS TO THE GOBRI FUND FOR PAYMENT OF DEBT SERVICE" below.

INTEREST RATE EXCHANGE AGREEMENTS

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

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

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

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

The State entered into the Agreements as a means of (1) lowering its borrowing costs when compared to fixed-rate bonds at the time of issuance and (2) limiting interest rate risk inherent in variable rate debt. The Agreements may expose the State to certain market and credit risks. The State may terminate the Agreements at any time at market value, or upon the occurrence of certain events. In addition, either the State or the Counterparties may terminate the Agreements if the other party fails to perform under the terms of the Agreements. A Counterparty may terminate its related Agreement if the State's rating falls below "BBB" from S&P, "Baa" from Moody's and "BBB" from Fitch. If the Agreements are terminated, the related bonds would continue to bear interest at a variable rate, and the State could be liable for a termination payment if the Agreements have a negative market value. The estimated aggregate mark-to-market valuation for all of the Agreements for the State is ($179.1) million, as of the fiscal year ending June 30, 2012. 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 2008-2012 and year to date for Fiscal Year 2013.

TABLE 9
GENERAL OBLIGATION BOND SALES
($ IN MILLIONS)

Fiscal year	Capital Improvement	Refunding	Special Purpose	Pension
2008	125.0	-	-	-
2009	150.0	-	-	-
2010	2,456.0	1,501.3	246.1	3,466.0
2011	1,200.0	-	-	3,700.0
2012	1,375.0	1,797.7	-	-
2013[1]	850.0	-	-	-

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

INDEBTEDNESS IN PRIOR YEARS

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

TABLE 10
GENERAL OBLIGATION BONDS OUTSTANDING
($ IN MILLIONS)

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

[1] Principal of and Interest on the 2003 Pension Bonds is funded with corresponding reductions to the Unfunded Actuarial Accrued Liability payments appropriated from the general funds as an unfunded liability replacement financing pursuant to Public Acts 88-593, 94-004 and 93-009.

FUTURE FINANCINGS

The State continues to execute on its $31 billion Illinois Jobs Now! capital program. See "STATE FINANCIAL INFORMATION - DISCUSSION AND ANALYSIS OF FISCAL YEARS 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 in the second quarter of 2013 up to $1 billion in additional GO Bonds and up to $200 million in additional Build Illinois Bonds to provide additional funds for the Illinois Jobs Now! capital program. In addition, the State anticipates, subject to market conditions, issuing in the second quarter of 2013 up to $450 million of Build Illinois Bonds to refund outstanding Build Illinois Bonds.

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. See "THE OFFERING – SECURITY – *State Funding Payments*."

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

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

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

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

MEASURES OF DEBT BURDEN

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

TABLE 12
RATIO OF GENERAL OBLIGATION DEBT SERVICE TO TOTAL GENERAL AND ROAD FUND APPROPRIATIONS FISCAL YEARS 2008-2012

Fiscal Year	Total Appropriations[1] ($ In Millions)	Capital Improvement Bonds Debt Service % of Appropriations	Pension Bonds[2] Debt Service % of Appropriations
2008	32,391	3.66%	1.69%
2009	36,915	3.14%	1.48%
2010	33,004	3.43%	1.65%
2011	32,411	4.02%	4.15%
2012	36,106	3.60%	4.37%

[1] Includes aggregate appropriations from the General Funds and the Road Fund for each fiscal year.

[2] Includes 2010 and 2011 Pension Obligation Notes and 2003 Pension Obligation Bonds.

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

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

[1] U.S. Department of Commerce, Bureau of Economic Analysis, August 2012.

[2] Includes 2010 and 2011 Pension Obligation Notes and 2003 Pension Obligation Bonds.

TABLE 14
GENERAL OBLIGATION DEBT PER CAPITA- ILLINOIS
FISCAL YEARS 2008-2012

	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.

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Table 15
MATURITY SCHEDULE - GENERAL OBLIGATION BONDS
As of April 10, 2013

	General Obligation Capital Improvement Bonds					General Obligation Pension Bonds			Total
Fiscal Year June 30	Multiple Purpose	Refunding	Total Principal	Total Interest	Total Debt Service	Principal	Interest	Debt Service	Combined Total Debt Service
2013	369,598,755	364,271,996	733,870,751	674,724,575	1,408,595,326	793,200,000	767,750,716	1,560,950,716	2,969,546,042
2014	326,872,201	448,342,406	775,214,607	683,977,658	1,459,192,264	893,200,000	740,879,544	1,634,079,544	3,093,271,808
2015	363,856,279	431,559,441	795,415,720	630,423,315	1,425,839,034	1,093,200,000	704,683,372	1,797,883,372	3,223,722,406
2016	369,116,084	413,990,257	783,106,341	597,072,491	1,380,178,831	700,000,000	656,454,000	1,356,454,000	2,736,632,831
2017	392,530,167	362,361,174	754,891,341	554,926,898	1,309,818,239	1,025,000,000	622,338,000	1,647,338,000	2,957,156,239
2018	384,496,167	347,296,639	731,792,806	507,808,457	1,239,601,264	1,050,000,000	568,615,500	1,618,615,500	2,858,216,764
2019	395,477,317	302,655,000	698,132,317	469,538,532	1,167,670,849	1,075,000,000	511,105,500	1,586,105,500	2,753,776,349
2020	377,401,629	294,720,000	672,121,629	438,484,029	1,110,605,659	225,000,000	449,550,000	674,550,000	1,785,155,659
2021	353,466,898	302,318,985	655,785,883	397,856,464	1,053,642,347	275,000,000	438,412,500	713,412,500	1,767,054,847
2022	406,087,410	225,080,000	631,167,410	353,789,413	984,956,823	325,000,000	424,800,000	749,800,000	1,734,756,823
2023	415,767,922	207,210,000	622,977,922	324,394,550	947,372,473	375,000,000	408,712,500	783,712,500	1,731,084,973
2024	397,898,968	184,910,000	582,808,968	283,420,454	866,229,422	450,000,000	390,150,000	840,150,000	1,706,379,422
2025	381,228,835	134,265,000	515,493,835	254,355,609	769,849,443	525,000,000	367,200,000	892,200,000	1,662,049,443
2026	397,990,000	128,410,000	526,400,000	223,454,333	749,854,333	575,000,000	340,425,000	915,425,000	1,665,279,333
2027	434,685,000	-	434,685,000	197,419,317	632,104,317	625,000,000	311,100,000	936,100,000	1,568,204,317
2028	443,260,000	-	443,260,000	171,874,900	615,134,900	700,000,000	279,225,000	979,225,000	1,594,359,900
2029	445,610,000	-	445,610,000	144,212,933	589,822,933	775,000,000	243,525,000	1,018,525,000	1,608,347,933
2030	390,500,000	-	390,500,000	119,926,133	510,426,133	875,000,000	204,000,000	1,079,000,000	1,589,426,133
2031	346,455,000	-	346,455,000	98,223,367	444,678,367	975,000,000	159,375,000	1,134,375,000	1,579,053,367
2032	287,575,000	-	287,575,000	79,127,690	366,702,690	1,050,000,000	109,650,000	1,159,650,000	1,526,352,690
2033	286,865,000	-	286,865,000	62,122,647	348,987,647	1,100,000,000	56,100,000	1,156,100,000	1,505,087,647
2034	320,035,000	-	320,035,000	43,221,937	363,256,937	-	-	-	363,256,937
2035	233,240,000	-	233,240,000	25,933,260	259,173,260	-	-	-	259,173,260
2036	135,000,000	-	135,000,000	12,169,900	147,169,900	-	-	-	147,169,900
2037	87,000,000	-	87,000,000	6,073,100	93,073,100	-	-	-	93,073,100
2038	32,000,000	-	32,000,000	1,672,800	33,672,800	-	-	-	33,672,800
2039	-	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-	-
Total	8,774,013,631	4,147,390,898	12,921,404,529	7,356,204,760	20,277,609,289	15,479,600,000	8,754,051,632	24,233,651,632	44,511,260,921

Note: Interest on Build America Bonds is shown before deduction of the Federal subsidy due to the federal budget sequestration.

	Multiple Purpose	Refunding	Pension Bonds Principal	Total Principal
Total Principal	**$ 8,774,013,631**	**$ 4,147,390,898**	**$ 15,479,600,000**	**$ 28,401,004,529**
Less: Current Maturities Paid to Date	336,203,755	364,271,996	693,200,000	1,393,675,751
Outstanding Principal Net of Current Maturities Paid to Date	**$ 8,437,809,876**	**$ 3,783,118,902**	**$ 14,786,400,000**	**$ 27,007,328,778**

OTHER GENERAL FUND LIABILITIES

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

One large component of these accrued liabilities consists of payment deferrals under Section 25 of the State Finance Act (30 ILCS 105) for Medical Assistance, comprised mostly of the Medicaid program, and the smaller component of accrued liabilities, Group Health Insurance (herein referred to as "Section 25 Liabilities"). The following table provides end of year outstanding Section 25 Liabilities for Fiscal Years 2006 to 2011. Section 25 Liabilities for end of Fiscal Year 2012 are estimated to be $2.0 billion for Medical Assistance under the Department of Healthcare and Family Services, $221 million for Medical Assistance under the Department of Human Services and $1.2 billion for the State Group Health Insurance program. A budgetary transfer of $151 million to the Healthcare Provider Relief Fund is expected to be authorized to address the total Fiscal Year 2013 Medicaid reforms in the Spring 2013 legislative session. See "STATE FINANCIAL INFORMATION – DISCUSSION AND ANALYSIS OF FISCAL YEARS 2011 THROUGH 2014 - FISCAL YEAR 2013 (JULY 2012 – JUNE 2013) – *Expenditures*."

TABLE 16
SECTION 25 LIABILITIES- FISCAL YEARS 2006-2011
($ IN THOUSANDS)

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

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

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

An additional general fund liability is the underfunded Income Tax Refund Fund, as described in the "STATE FINANCIAL INFORMATION – TAX REVIEW" section of this Official Statement. This underfunding results in a back log of unpaid business income tax refunds. As of the date of this Official Statement, approved but still unpaid business income tax refunds are estimated by the Illinois Department

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

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

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

of Revenue as approximately $69 million for Fiscal Year 2012. Table 16A shows the historical data of the underfunded Income Tax Refund Fund.

REVENUE BONDS

Revenue bonds are either those bonds for which the State dedicates a specific revenue source for debt service or those bonds under which the State is committed to retire debt issued by certain authorities or municipalities created and organized pursuant to law and operating within the State. The State's commitment is based upon various Illinois statutes and upon contractual arrangements with the issuers. Table 17 identifies the current level of revenue bonds indebtedness and a description of each bond program follows.

TABLE 17
REVENUE BONDS
AS OF MARCH 1, 2013
($ IN MILLIONS)

Revenue Bond Program	Bonds Outstanding
Build Illinois - Sales Tax Revenue Bonds	$2,732.1
Metropolitan Exposition and Auditorium Authorities - Civic Center Program	62.7
MPEA[1,2] - McCormick Place Expansion Project and Refunding Bonds	2,525.6
Illinois Sports Facilities Authority	438.3
Illinois Certificates of Participation	13.8
Total	**$5,772.5**

[1] Metropolitan Pier and Exposition Authority ("MPEA")

[2] Includes capital appreciation bonds expressed in the amount of original principal issuance.

BUILD ILLINOIS

The Build Illinois program funds initiatives in business development, infrastructure construction and replacement, education, and environmental protection. The Build Illinois Bonds are dedicated State tax revenue bonds. The current Build Illinois bond authorization is $5,703.5 million. Public Act 93-839 amended the Build Illinois Bond Act, 30 ILCS 425 *et. seq*., to include certain restrictions similar to those contained in the Bond Act.

The Build Illinois Fund receives 3.8% of State sales tax collections to support debt service on Build Illinois Bonds and project spending. To the extent these revenues are insufficient in any month to provide specified amounts set forth in law to secure Build Illinois Bonds, an additional amount equal to the deficiency will be paid from the State's sales tax collections.

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

METROPOLITAN EXPOSITION AND AUDITORIUM AUTHORITIES—CIVIC CENTER PROGRAM

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

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

METROPOLITAN PIER AND EXPOSITION AUTHORITY—EXPANSION PROJECT BONDS

Metropolitan Pier and Exposition Authority ("MPEA") is authorized to issue McCormick Place Expansion Project Bonds. These bonds are secured by locally imposed taxes including hotel/motel, restaurant, car rental and airport departure taxes. Surplus from the Illinois Sports Facilities Authority hotel tax also is pledged as security for the bonds. If revenues from the taxes imposed by MPEA are insufficient to pay debt service on the Expansion Project Bonds, remaining State sales tax revenues, following required deposits to the Build Illinois Fund, are pledged to meet the deficiency. Legislation adopted in May 2010 increased the airport departure taxes which secure these bonds, extended the allocation of sales tax revenues to meet the deficiency on these bonds to 2060 and provided additional financial support from the State for operations of MPEA. In July 2012, MPEA issued $855 million of bonds, a portion of which were refunding bonds used defease the remaining $18 million of MPEA Dedicated State Tax Bonds. This now allows the Build Illinois Bond program to be the sole bonds with first lien on the State Share of Sales Tax.

ILLINOIS SPORTS FACILITIES AUTHORITY

The Illinois Sports Facilities Authority ("ISFA") was created in 1987, with authorization to finance construction of a professional sports stadium within the City of Chicago. Pursuant to legislation effective June 1, 2001, ISFA was authorized to finance reconstruction of a stadium for the Chicago Bears and related lakefront improvements in Chicago (the "Soldier Field Project"). Debt issued by ISFA is an obligation of ISFA and is not backed by the full faith and credit of the State. In 1989, ISFA issued $150 million of revenue bonds to finance construction of a new Comiskey Park stadium, now known as U.S. Cellular Field, and such bonds were refunded in 1999 from the issuance by ISFA of revenue bonds (the "1999 ISFA Bonds").

In 2001, ISFA issued $399 million of revenue bonds to finance the Soldier Field Project (the "2001 ISFA Bonds"). The 1999 ISFA Bonds and the 2001 ISFA Bonds are payable, subject to appropriation, from (i) a $10 million subsidy derived equally from State hotel tax revenues and amounts allocable to the City of Chicago under the State Revenue Sharing Act (30 ILCS 115/0.1 *et seq*.) and (ii) an advance of State hotel tax revenues in the amount of $22.179 million in Fiscal Year 2002, increasing by 5.615% each fiscal year thereafter, which advance is required to be repaid annually by receipts derived from a 2.0% hotel tax imposed by ISFA within the City of Chicago. In the event the ISFA tax is insufficient to repay the advance of State hotel tax revenues, the deficiency will be paid from additional amounts otherwise payable to the City of Chicago under the State Revenue Sharing Act. The State expects that all amounts advanced as described in clause (ii) above will be repaid to the State.

In 2003, ISFA issued $42.535 million of additional revenue bonds (the "2003 ISFA Bonds") to finance a portion of certain renovations to U.S. Cellular Field. In 2008, ISFA issued $10 million of additional revenue bonds (the "2008 ISFA Bonds") to finance a portion of certain infrastructure improvements and renovations to U.S. Cellular Field. The 2003 ISFA Bonds and the 2008 ISFA Bonds are payable from the same revenue sources as the 1999 ISFA Bonds and the 2001 ISFA Bonds.

RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY

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

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

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

CERTIFICATES OF PARTICIPATION

Public Act 93-839 provides that the State shall not enter into any third-party vendor or other arrangements relating to the issuance of certificates of participation or other forms of financing relating to the rental or purchase of office or other space, buildings, or land unless otherwise authorized by law. Prior to the passage of Public Act 93-839, the State had issued two series of certificates of participation for the acquisition of real property, $21.0 million in October 1995 and $17.7 million in May 1996. The proceeds of these certificates were used to finance the construction of correctional facilities. The certificates are payable from lease or installment purchase payments which are subject to annual appropriation and are not a full faith and credit obligation of the State.

OTHER OBLIGATIONS

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

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

TABLE 18
MATURITY SCHEDULE -- REVENUE BONDS
Bond Issuances through March 1, 2013

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
2013	197,702,124	35,089,492	10,095,000	5,092,354	2,305,000	63,550,000	250,283,970	359,857,627	610,141,597
2014	205,229,306	22,384,911	10,705,000	6,019,695	2,440,000	70,860,000	246,778,912	348,775,430	595,554,342
2015	203,236,038	17,526,860	11,415,000	6,907,832	2,590,000	76,820,000	241,675,730	360,235,202	601,910,932
2016	204,290,000	18,695,335	12,020,000	7,773,337	2,750,000	80,655,000	245,528,672	347,438,316	592,966,988
2017	189,270,000	26,177,234	5,488,409	8,581,095	2,915,000	84,700,000	232,431,739	346,554,401	578,986,140
2018	174,510,000	26,007,384	5,668,835	6,805,418	3,140,000	89,040,000	216,131,636	352,469,079	568,600,715
2019	161,520,000	35,200,083	5,875,462	7,039,442	-	93,620,000	209,634,987	359,651,777	569,286,764
2020	145,475,000	42,054,453	6,103,026	7,467,726	-	98,565,000	201,100,205	354,250,969	555,351,175
2021	114,615,000	80,967,400	5,405,000	7,889,845	-	103,900,000	208,877,245	310,460,416	519,337,660
2022	125,075,000	54,313,012	-	8,307,537	-	109,655,000	187,695,549	341,588,229	529,283,779
2023	112,750,000	109,057,495	-	8,726,172	-	107,260,000	230,533,667	288,257,107	518,790,774
2024	105,490,000	45,216,436	-	9,138,953	-	104,945,000	159,845,389	343,805,167	503,650,556
2025	104,295,000	48,272,449	-	9,521,669	-	103,455,000	162,089,118	332,268,628	494,357,746
2026	102,370,000	55,469,129	-	15,610,731	-	102,380,000	173,449,860	294,445,680	467,895,540
2027	93,555,000	95,643,545	-	32,537,372	-	101,275,000	221,735,917	242,106,804	463,842,721
2028	87,450,000	126,092,687	-	36,970,797	-	53,405,000	250,513,484	221,433,403	471,946,888
2029	66,415,000	131,355,321	-	41,810,210	-	-	239,580,531	208,165,453	447,745,984
2030	63,290,000	10,277,690	-	52,405,826	-	-	125,973,516	353,949,035	479,922,551
2031	58,290,000	9,145,954	-	75,355,000	-	-	142,790,954	334,048,704	476,839,658
2032	52,290,000	8,140,997	-	84,295,000	-	-	144,725,997	328,511,418	473,237,415
2033	52,290,000	7,243,844	-	-	-	-	59,533,844	322,719,328	382,253,172
2034	52,290,000	6,447,732	-	-	-	-	58,737,732	321,040,947	379,778,679
2035	30,210,000	5,737,216	-	-	-	-	35,947,216	319,339,470	355,286,686
2036	30,210,000	5,107,150	-	-	-	-	35,317,150	318,684,468	354,001,618
2037	-	4,545,622	-	-	-	-	4,545,622	317,960,928	322,506,550
2038	-	4,043,951	-	-	-	-	4,043,951	318,462,599	322,506,550
2039	-	3,600,523	-	-	-	-	3,600,523	318,906,027	322,506,550
2040	-	3,202,467	-	-	-	-	3,202,467	319,304,083	322,506,550
2041	-	15,686,328	-	-	-	-	15,686,328	306,885,078	322,571,407
2042	-	227,199,617	-	-	-	-	227,199,617	95,376,027	322,575,644
2043	-	36,068,330	-	-	-	-	36,068,330	286,499,346	322,567,675
2044	-	33,701,220	-	-	-	-	33,701,220	288,866,455	322,567,675
2045	-	31,689,253	-	-	-	-	31,689,253	290,873,422	322,562,675
2046	-	29,798,833	-	-	-	-	29,798,833	292,768,842	322,567,675
2047	-	76,946,212	-	-	-	-	76,946,212	245,620,332	322,566,544
2048	-	273,730,000	-	-	-	-	273,730,000	48,834,378	322,564,378
2049	-	287,825,000	-	-	-	-	287,825,000	34,740,299	322,565,299
2050	-	302,750,000	-	-	-	-	302,750,000	19,705,294	322,455,294
2051	-	35,706,739	-	-	-	-	35,706,739	286,864,490	322,571,229
2052	-	168,218,298	-	-	-	-	168,218,298	154,351,702	322,570,000
Total	2,732,117,468	2,556,336,202	72,775,732	438,256,011	16,140,000	1,444,085,000	5,815,625,413	11,336,076,358	17,151,701,771

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.

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

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

TABLE 19
MORAL OBLIGATION ESTIMATED DEBT[1]
ESTIMATED AS OF MARCH 1, 2013
($ IN MILLIONS)

Issuing Authority	Moral Obligation Bonds Outstanding
Southwest Illinois Development Authority	$ 27.4
Upper Illinois River Valley Development Authority	18.2
Illinois Finance Authority[2]	84.2
Illinois Housing Development Authority	0.3
	$ 130.1

[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 $467 million. Should no additional prepaid tuition contracts be sold under the College Illinois program, actuary's estimate that the State will need to provide additional funds to College Illinois to support its obligations. These additional funds would need to be provided starting in 2021 and concluding in 2037 and, depending upon which actuarial assumptions are used, could total in excess of $1.2 billion. For additional information, see ISAC's College Illinois website in "STATE OF ILLINOIS – WEBSITE INDEX." ISAC, in conjunction with the General Assembly and the Governor, are in discussions as to how to address the projected shortfall. No assurances as to what solution, the timing of the solution or the ultimate cost to the State, if any, can be made at this time.

AGRICULTURAL LOAN GUARANTEE PROGRAM

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

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

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

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PENSION SYSTEMS

GENERAL

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

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

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

State contributions to the Retirement Systems are made following appropriation by the General Assembly. Prior to the passage of Public Act 97-694, each Retirement System was required to certify to the State the amount necessary to pay the Required Annual Statutory Contribution (as defined below) by November 15 (December 15 for GARS) of the current fiscal year for inclusion in the Governor's budget for the following fiscal year. As a result of the passage of Public Act 97-694, which became effective in June 2012, the process for certification by the Retirement Systems of the Required Annual Statutory Contributions was revised as follows: Beginning November 1, 2012, the Board of each Retirement System is required, on or before November 1 of each year, to submit a proposed certification to the newly created position of State Actuary of the amount necessary to pay the Required Annual Statutory Contribution. 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. 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.

The State Actuary's Fiscal Year 2012 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 2012 Actuarial Valuation reports of the Retirement Systems were affirmed by the State Actuary; however, recommendations were made for additional disclosure to the 2012 Actuarial Valuations as well as certain changes for future Actuarial Valuations. 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 on the recommendations of the State Actuary are contained in Appendix C of the aforementioned report. Please see "APPENDIX D – SUMMARY OF RECOMMENDATIONS FROM THE STATE ACTUARY REGARDING THE ILLINOIS PENSION SYSTEMS" in this Official Statement for the full list of recommendations by the State Actuary to each Retirement System.

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 State Comptroller and the State Treasurer to the Retirement Systems in amounts sufficient to meet the requirements of the Statutory Funding Plan (as described herein, see "DETERMINATION OF EMPLOYER CONTRIBUTIONS – *The Actuarial Evaluation*" herein) through a "Continuing Appropriation." 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 not been fully funded, and the effect of a sale of the Retirement Systems' assets to pay benefits, see "HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS" below.

BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS

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

Furthermore, where the tables in this disclosure present aggregate information regarding the Retirement Systems, specifically in Tables 24-34, such combined information results solely from the arithmetic calculation of numbers compiled from the Source Information and may not conform to the requirements for the presentation of such information as may be required by 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 "ACTUARIAL METHODS—*Actuarial Accrued Liability*" herein. In addition, the Retirement Systems' members make annual contributions to the Retirement Systems from their salaries. For more information on the amount of contributions made by the State and Retirement System members in each of fiscal years 2008 through 2012, see Tables 25 through 29.

The comprehensive annual financial reports ("CAFR") of the Retirement Systems for the fiscal year ending June 30, 2012, and the Actuarial Valuations of the Retirement Systems for the fiscal year ending June 30, 2012, are hereby incorporated by reference. These documents are available upon written request to the respective Retirement System. (For contact information for each of the Retirement Systems, see "STATE OF ILLINOIS – WEBSITE INDEX" herein).

The *Teachers' Retirement System*, TRS, is a cost-sharing, multiple-employer, public employee defined-benefit pension plan. TRS is governed by a 13-member Board of Trustees, consisting of the State

Superintendent of Education, six trustees appointed by the Governor with the advice and consent of the Senate, four trustees elected by contributing TRS members, and two trustees elected by TRS annuitants. 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 funding for TRS is the responsibility of the State. TRS receives contributions from 864 local school districts, 138 special districts and 22 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, 2012, TRS had a total membership of 393,152, consisting of 165,872 active members, 121,781 inactive members entitled to benefits but not yet receiving them, and 105,499 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 districts 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 15 other State agencies. As of June 30, 2012, SURS had a total membership of 217,029, consisting of 81,156 active members (of which 10,100 are in the Self-Managed Plan, as defined below), 81,341 inactive members entitled to benefits but not yet receiving them (of which 7,307 are in the Self-Managed Plan described below), and 54,532 retirees and beneficiaries currently receiving benefits. Members contribute either 8.0% or 9.5% of their salary depending on the benefits package applicable to them.

SURS also provides a public employee defined contribution plan, termed the "Self-Managed Plan." In a defined contribution plan, the employee and the employer contribute specified amounts to the pension plan. These contributions, plus the investment earnings on the money in the pension plan, represent the employee's benefits under the plan. As opposed to defined-benefit plans where the amount of benefits is guaranteed to the employee once earned, only employer contributions to the plan are guaranteed.

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

SERS membership is automatic for most State employees not eligible for another State-sponsored retirement plan. In addition, employees appointed by the Governor and requiring confirmation by the Senate may elect to become members of SERS. As of June 30, 2012, SERS had a total membership of 148,331, consisting of 62,729 active members, 22,549 inactive members, 62,788 retirees and beneficiaries currently receiving benefits, and 265 members eligible for deferred benefits. SERS members contribute a specified percentage of their salaries which varies between 4% and 12.5% depending on the applicability of federal Social Security benefits to the member and the member's eligibility for an alternative benefits formula as provided by the Pension Code.

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

Participation by judges is mandatory unless a judge makes an election not to participate within 30 days of receipt of notice of the option not to participate. As of June 30, 2012, JRS had a total membership of 2,039, consisting of 968 active members, 15 inactive members entitled to benefits but not yet receiving them, and 1,056 retirees and beneficiaries currently receiving benefits. The Pension Code establishes the JRS total contribution rate at 11.0% of salary, consisting of 7.5% for the retirement annuity, 2.5% for the survivors' annuity, and 1.0% for automatic annual increases. A JRS member may elect not to contribute to the survivor's annuity and forego such benefit.

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

Participation in GARS is optional. As of June 30, 2012, GARS had a total membership of 669, consisting of 176 active members, 79 inactive members entitled to benefits but not yet receiving them, and 414 retirees and beneficiaries currently receiving benefits. The Pension Code establishes the GARS total contribution rate at 11.5% of salary, which consists of 8.5% for the retirement annuity, 2.0% for the survivors' annuity, and 1.0% for automatic annual increases. In certain circumstances, a GARS member may elect not to contribute to the survivor's annuity and forego such benefit.

With the exception of 60,325 active members of SERS, members of the Retirement Systems do not participate in Social Security through their employment with a Retirement System participating employer.

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

As of June 30, 2012, the membership in each of the Retirement Systems and the required membership contributions as a percentage of member salary were as follows:

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TABLE 20 - MEMBERSHIP AND MEMBER CONTRIBUTIONS

Retirement System	Active Members	Inactive/ Entitled to Benefits	Retirees and Beneficiaries	Total	Member Contribution[1]
TRS	165,872	121,781	105,499	393,152	9.40%
SURS	81,156	81,341	54,532	217,029	8.0% - 9.5%[2]
SERS[3]	62,729	22,549	62,788	148,066	4.0% - 12.5%[4]
JRS	968	15	1,056	2,039	11.00%
GARS	176	79	414	669	11.50%
Total	310,901	225,765	224,289	760,955	

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2012.

(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 265 for fiscal year ending June 30, 2012.

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

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

DETERMINATION OF EMPLOYER CONTRIBUTIONS

Actuaries and the Actuarial Process

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

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

Each Actuarial Valuation must be accompanied by a statement from 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 ("ASOP") issued by the Actuarial Standards Board, and with applicable statutes. The Required Annual Statutory Contribution is computed in accordance with the Pension Code and, more specifically, the Statutory Funding Plan. As the Statutory Funding Plan does not conform 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 "ACTUARIAL METHODS—*Actuarial Accrued Liability*" below.

The Actuarial Valuation

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

[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 State 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.

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 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.

Statutory Funding Plan not in Accordance with GASB 25

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

ACTUARIAL METHODS

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

Actuarial Value of Assets

The Actuarial Value of Assets 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 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 25 through 28, set forth below, reflect the Retirement Systems' Funded Ratio both measured at fair value and based on application of the Asset Smoothing Method.

Actuarial Accrued Liability

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

First, the goal of the Statutory Funding Plan is to amortize the portion of the UAAL necessary 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 requires amortization of the entire UAAL over a 30-year open 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" herein.

Net Pension Obligation

GASB 25 requires the calculation and disclosure of the Net Pension Obligation (the "NPO") in the financial statements of the pension plan, while GASB 27 requires that amount to be disclosed in the financial statements of the employer. With respect to the Retirement Systems, the NPO is defined as the cumulative value of the annual differences between the State's actual contributions and the Actuarially Required Contributions, starting at the point in time the State adopted generally accepted accounting principles for pension accounting and reporting as promulgated by GASB. In any year that the State contributes less than the Actuarially Required Contribution, the difference between the actual contribution and the Actuarially Required Contribution is the addition to the NPO for that year.

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

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

On June 25, 2012, GASB approved GASB 67 and 68, which will impact the accounting 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 will require the accounting and reporting of pension plan assets and liabilities on an Entry Age Normal cost method, which is different from the Statutory Funding Plan that uses the Projected Unit Credit (PUC) cost method. GASB 67 will be effective for fiscal years beginning after June 15, 2013 and GASB 68 will be effective for fiscal years beginning after June 15, 2014.

ACTUARIAL ASSUMPTIONS

General

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

TABLE 21 - CERTAIN ACTUARIAL ASSUMPTIONS USED BY THE RETIREMENT SYSTEMS

	TRS	SURS	SERS	GARS	JRS
Actuarial Cost Method(1)	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Investment Rate of Return(2)	8.00%	7.75%	7.75%	7.00%	7.00%
Assumed Inflation Rate	3.25%	2.75%	3.00%	3.00%	3.00%
Post-Retirement Increase	3.00%	3.00%	3.00%	3.00%	3.00%
Projected Salary Increases	6.00%(3)	3.75% to 12.0%(4)	4.00% to 8.87%(5)	4.00%(6)	4.00%(6)

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2012.

(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% and a seniority/merit component of 1.0%.

The Pension Code requires each of the Retirement Systems to conduct an actuarial experience review every five years. SURS, SERS, GARS and JRS 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 "PENSION SYSTEMS – 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 22 for the rates of return on the Retirement Systems' assets for the last ten fiscal years. Changes in the Retirement Systems' assets as a result of market performance will lead to an increase or decrease in the UAAL and the Funded Ratio. As a result of the State's adoption of the Asset Smoothing Method, however, only a portion of these increases or decreases will be recognized in the current year, with the remaining 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.

TABLE 22 - INVESTMENT RATES OF RETURN, 2003-2012

	TRS		SURS		SERS		GARS		JRS	
Fiscal Year	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*
2003	8.5%	4.9%	8.5%	2.9%	8.5%	0.3%	8.0%	0.3%	8.0%	0.3%
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%	0.2%	7.0%	0.2%	7.0%	0.2%
5-Yr. Avg. Return	-	0.7%	-	1.9%	-	0.1%	-	0.1%	-	0.1%
10-Yr Avg. Return	-	6.4%	-	6.8%	-	5.4%	-	5.4%	-	5.4%

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2003 through June 30, 2011. Certain information was provided by the Retirement Systems.

HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS

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

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

The Statutory Funding Plan consists of two parts: (i) a ramp-up period of increasing State contributions as a percentage of payroll in each of the fiscal years 1996 to 2010 and (ii) a period of contributions equal to the 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 "Actuarial Methods—*Actuarial Accrued Liability*" above.

On June 12, 2003, the State issued $10 billion of general obligation pension funding bonds (the "2003 Pension Bonds") pursuant to authority granted by the General Assembly in Public Act 93-0002 (the "2003 Pension Bond Act"). The net proceeds of the 2003 Pension Bonds were used to (i) reimburse the State's General Revenue Fund for $300 million of the Required Annual Statutory Contribution made for Fiscal Year 2003, (ii) provide funding to the State's General Revenue Fund for the full Fiscal Year 2004 Required Annual Statutory Contribution in the amount of $1.86 billion and (iii) fund a portion of the UAAL in the amount of $7.3 billion 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 23 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 22, exceeded in each specific year the amount of the debt service payments reflected in the Table below, the UAAL was effectively reduced from what the UAAL would have been had those bonds not been issued and proceeds not provided to the State's pension systems. Conversely, in those fiscal years when the actual returns reported in Table 22 were less than total interest cost percentage on the 2003 Pension Bonds, the UAAL was effectively increased from what the UAAL would have been had those bonds not been issued and proceeds provided to the State's pension systems. 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 23 - DEBT SERVICE ON 2003 PENSION BONDS[(1)]

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

(1) In millions of dollars.

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

State contributions to the Retirement Systems for fiscal years 2006 and 2007 were governed by the provisions of Public Act 94-0004 ("P.A. 94-4"). P.A. 94-4 modified the Statutory Funding Plan to specify reduced Required Annual Statutory Contributions for these two fiscal years. These reduced contributions were also lower than the Actuarially Required Contributions for such fiscal years. Under the provisions of the Statutory Funding Plan as originally constituted in the Pension Funding Act, the State would have been required to contribute $2.12 billion in Fiscal Year 2006 and $2.51 billion in Fiscal Year 2007. P.A. 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 P.A. 94-4 had the dual effect of increasing the UAAL and delaying payment of the deferred portion of the contribution to a future fiscal year.

The State made the full Required Annual Statutory Contributions for fiscal years 2008 and 2009. As previously described, however, these contributions were reduced by the amount of debt service due in each fiscal year on the 2003 Pension Bonds. The UAAL increased despite the State making the Required Annual Statutory Contributions under the Statutory Funding Plan 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 P.A. 96-1497 (the "2011 Pension Bond Act"), the State issued $3.7 billion in general obligation pension funding bonds (the "2011 Pension Bonds") to fund a portion of the Required Annual Statutory Contribution for Fiscal Year 2011. The 2011 Pension Bond Act does not provide that the Required Annual Statutory Contribution be reduced by the debt service payments on the 2011 Pension Bonds. 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 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 2013. In the past, the Retirement Systems have sold assets to pay benefits as a result of a deficit between the contributions actually received (plus investment returns earned) by the Retirement Systems and their annual expenditures, including benefit payments. Failures by the State to make its payments to the Retirement Systems on a timely basis can exacerbate the pace at which the Retirement Systems may be required to sell assets to meet benefit payment requirements. If these sold assets are not replaced, the Actuarial Value of Assets will decrease and the UAAL will increase because the Retirement Systems will no longer have those assets, or the investment earnings on those assets, to pay benefits in the future, 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 required to be contributed in any given year.

Table 24 shows the State's Actuarially Required Contributions along with the percentage of those contributions actually made in each of 2003 through 2012.

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TABLE 24 - HISTORY OF STATE CONTRIBUTIONS[(1)]

Fiscal Year	Amount Contributed[(2)]	Actuarially Required Contribution Per GASB 25	Percentage Contributed
2003	1,685.50	2,535.59	66.47%
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%

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2012. Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2003 through June 30, 2011.

(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 2012, the Retirement Systems had an aggregate UAAL of approximately $96.8 billion on a fair value basis and $94.6 billion on an actuarial basis (using the Asset Smoothing Method), resulting in respective Funded Ratios of 39.0% and 40.4%. The Retirement Systems' aggregate UAAL increased between the end of Fiscal Year 2011 and the end of Fiscal Year 2012 primarily as a result of certain changes to actuarial assumptions by TRS as part of their Fiscal Year 2012 actuarial experience review. Other factors contributing to the increased UAAL from Fiscal Year 2011 to Fiscal Year 2012 include State contributions less than the Actuarially Required Contribution, and lower investment returns than the Investment Rate of Return actuarially assumed by the Retirement Systems.

The following tables summarize the financial condition for Fiscal Years 2008 through 2012.

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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
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
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".

TABLE 29
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2008
($ IN THOUSANDS)

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

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

(1) The SURS Self Managed Plan (SMP) is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.

(2) Reflects valuation of assets on a fair value basis as of June 30, 2007, per GASB Statement 25.

Tables 30 and 31 present information as required by GASB 27 for Fiscal Years 2003 through 2012. Table 30 provides aggregate funding progress for the Retirement Systems, including comparisons to UAAL and Funded Ratio. Table 31 provides a schedule of the Net Pension Obligation for each Retirement System and for the Retirement Systems in the aggregate. For additional information about the Net Pension Obligation, see "Actuarial Methods—*Net Pension Obligation*" above.

TABLE 30 - SCHEDULE OF FUNDING PROGRESS(1)
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)
2003	40,925.69	83,905.02	42,979.32	48.8%	13,601.60	316.0%
2004	54,769.42	89,912.82	35,143.40	60.9%	13,675.84	257.0%
2005	58,577.90	97,179.00	38,601.10	60.3%	14,106.80	273.6%
2006	62,341.40	103,073.50	40,732.10	60.5%	14,540.50	280.1%
2007	70,731.20	112,908.60	42,177.40	62.6%	15,249.20	276.6%
2008	64,700.50	119,084.40	54,383.90	54.3%	15,949.20	341.0%
2009	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%

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%

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2003 through June 30, 2011 and Actuarial Valuations of the Retirement Systems as of June 30, 2012.

(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 31 - NET PENSION OBLIGATION[1]

Fiscal Year	TRS	SURS	SERS	GARS	JRS	Total
2003	$9,658.9	$4,812.9	$1,142.4	$55.8	$331.5	$16,001.5
2004	6,272.9	3,910.0	(105.6)	33.6	227.5	$10,338.4
2005	7,183.9	4,361.9	190.9	38.4	261.0	$12,036.1
2006	8,508.6	4,984.3	658.9	44.1	303.5	$14,499.4
2007	9,971.1	5,584.5	1,135.5	50.0	349.7	$17,090.8
2008	11,075.7	6,121.0	1,554.6	55.0	386.0	$19,192.3
2009	11,954.0	6,734.2	1,814.5	58.6	413.4	$20,974.7
2010	12,586.1	7,250.8	1,933.3	61.6	431.5	$22,263.3
2011	13,418.7	7,941.1	2,131.5	64.7	470.1	$24,026.1
2012	14,641.8	8,561.8	2,388.0	68.4	523.7	$26,183.7

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2003 through June 30, 2011 and Actuarial Valuations of the Retirement Systems as of June 30, 2012. Certain information related to Fiscal Year 2012 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 32 below. The UAAL increased from $35.0 billion at the end of Fiscal Year 2002 to $94.6 billion at the end of Fiscal Year 2012, a change in $59.6 billion. No assurances can be given that the State will make the appropriations necessary to meet any deficiencies incurred by the Retirement Systems.

TABLE 32 - 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
2003	125.6	2,071.5	2,435.1	2,425.0	0.0	1,101.0	8,158.3
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
Total	(1,877.0)	12,763.1	23,719.8	2,425.0	13,881.6	8,723.7	59,636.3

Source: Commission on Government Forecasting and Accountability, Report on the Financial Condition of the Illinois Retirement Systems: Financial Condition as of June 30, 2011. See "RECENT REPORTS REGARDING THE RETIREMENT SYSTEMS - Report of the Commission on Government Forecasting and Accountability." Certain information for Fiscal Year 2012 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.

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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 ("P.A. 96-889"). P.A. 96-889 provided for significant reforms to the Retirement Systems, most notably by establishing a "two-tier" pension system resulting in reduced benefits 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, P.A. 96-889:

- Increased the minimum age at which an active employee may retire with unreduced benefits to age 67 for employees hired after January 1, 2011, from age 60 or younger based on a formula combining the age of the employee and the number of years of service;
- Reduced the cost of living adjustment to the lower of 3% or 50% of the annual change in the consumer price index for all urban consumers ("CPI") (for JRS and GARS, the annual change in such CPI) and eliminated compounding for employees hired after January 1, 2011;
- Calculated benefits based on the highest continuous eight years of compensation in the employee's last 10 years of employment for employees hired after January 1, 2011, from a calculation based on the highest four consecutive year average compensation;
- 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.

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

Taken independently of any other legislative or market effects, the reduced benefits afforded new hires by P.A. 96-889 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 P.A. 96-889, the Actuarial Accrued Liability is expected to decrease. Consequently, the UAAL is expected to decrease and the Funded Ratio to improve. As the growth in the UAAL slows, the Required Annual Statutory Contribution is expected to be reduced as the amount of UAAL to be amortized decreases.

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

Table 33 was prepared solely to compare projected Required Annual Statutory Contributions to the Retirement Systems prior to and after the enactment of P.A. 96-889. These projections were made as of June 30, 2010, immediately following the passage of P.A. 96-889, and do not reflect current projections of the Required Annual Statutory Contributions to the Retirement Systems. Table 33A reflects projections of the Required Annual Statutory Contributions to the Retirement Systems based on the Actuarial Valuations of the Retirement Systems as of June 30, 2012, including the revised actuarial assumptions presented in Tables 21 and 22. Actual Required Annual Statutory Contributions to the Retirement Systems will vary from the projected amounts shown in both Table 33 and Table 33A. These projections are forward-looking statements regarding future events and are based on the actuarial assumptions contained in the Statutory Funding Plan as discussed above and assumptions made regarding such future events, including the assumption that all projected contributions to the Retirement Systems are made as required. No assurance can be given that these assumptions will be realized or that actual events will not cause material changes to the data presented in this table.

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

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

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

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

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

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

Fiscal Year	Projected Required Annual Statutory Contributions
2013	$5,825
2014	$6,793
2015	$7,075
2016	$7,280
2017	$7,540
2018	$7,827
2020	$8,362
2025	$9,836
2030	$11,531
2035	$14,502
2040	$16,096
2045	$17,677

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

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

PROJECTION OF FUNDED STATUS

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

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TABLE 34 - 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)
2012	64,029.87	158,611.52	94,581.64	40.4%
2013	64,461.93	165,290.10	100,828.18	39.0%
2014	69,505.89	172,213.96	102,708.08	40.4%
2015	74,265.56	179,207.44	104,941.87	41.4%
2016	77,497.75	186,250.19	108,752.44	41.6%
2017	81,799.70	193,325.78	111,526.08	42.3%
2020	95,347.88	214,643.75	119,295.87	44.4%
2025	120,268.95	249,830.72	129,561.77	48.1%
2030	150,066.83	283,451.58	133,384.75	52.9%
2035	188,757.11	312,730.31	123,973.20	60.4%
2040	241,925.95	334,377.28	92,451.33	72.4%
2045	312,731.27	347,477.76	34,746.49	90.0%

Source: Compiled from the annual Actuarial Valuations of the Retirement Systems as of June 30, 2012.

(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 AND OTHER DEVELOPMENTS REGARDING THE RETIREMENT SYSTEMS

Report of the Pension Modernization Task Force

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

The Final Report presents the findings of the three major subcommittees formed by the Task Force: (i) the Subcommittee on Investments, (ii) the Subcommittee on Benefits and (iii) the Subcommittee on

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

Report of the Commission on Government Forecasting and Accountability

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

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

Resolution of the TRS Board of Trustees

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

PROPOSED PENSION STABILIZATION LEGISLATION

During the 97th General Assembly, various legislative proposals were put forth by the Governor and members of the General Assembly outlining reforms to the State pension systems. Proposed reforms included adopting a funding formula based on the Actuarially Required Contribution in lieu of the Statutory Funding Plan, reducing and/or delaying cost of living adjustments, increasing employee contribution rates, increasing the retirement age, and shifting the liability for normal cost to the actual employers. Although a number of bills were introduced to implement these proposals, no legislation was passed by the full legislature. With the commencement of the 98th General Assembly on January 9, 2013, any pension proposals introduced as legislation in the 97th General Assembly ceased to be actionable and must be resubmitted in the 98th General Assembly in order to be considered for passage and enactment into law.

Several bills were filed at the start of the 98th General Assembly containing pension reform proposals that are similar to the frameworks developed in the previous legislative session. The following table summarizes certain bills related to the reform of the State Retirement Systems that were filed as of March 12, 2013.

98th General Assembly - Pension Reform Proposals

Sponsor	Bill Reference	Date	Brief Summary
Sen. John Cullerton	SB1	January 2013	Bifurcated proposal: Part A- effects changes to COLA, employee contributions, pensionable salary level, adopts ARC funding schedule; Part B - at member's election, effects changes to COLA and adopts ARC funding schedule in exchange for pensionable raises and access to retiree healthcare; Part B takes effect if Part A declared unconstitutional.
Sen. Daniel Biss	SB35	January 2013	Effects changes to COLA, employee contributions, pensionable salary level, retirement age, adopts ARC funding schedule, shifts normal cost to actual employer.
Rep. Andre Thapedi	HB96	January 2013	Ends plan participation for new members, shifts new SURS and TRS employees into employer plan, establishes minimum State contribution for GARS and JRS, shifts normal cost to actual employer.
Rep. Elaine Nekritz	HB98	January 2013	Effects changes to COLA, employee contributions, pensionable salary level, retirement age, adopts ARC funding schedule, shifts normal cost to actual employer.

This summary of proposed legislation is not intended to be a comprehensive list of all pension-related bills or a comprehensive description of the substance of each bill that is listed above, and reference is made to the full text of the bills, which is available at the General Assembly's website. See "STATE OF ILLINOIS – WEBSITE INDEX." There is no assurance that any of the summarized legislation will be enacted into law.

Subsequent to March 12, 2013 and prior to the date of this Official Statement, an amended version of SB1 has passed the Senate. Additionally, during this period, the House has passed three separate pension related bills, HB1154, HB1165 and HB1166. None of these bills that have been passed by one of the houses of the General Assembly have been adopted by the other house of the General Assembly. Full texts of these bills can be found on the General Assembly's website. See "STATE OF ILLINOIS – WEBSITE INDEX." There is no assurance that any of these bills will be adopted by the respective other house of the General Assembly or be enacted into law.

Other pension related legislation may also be considered by the current session of the General Assembly but there is no assurance whether, or in what form, any such legislation will be enacted into law.

SEC ORDER

The State was originally contacted in September 2010 by the SEC regarding a non-public inquiry into communications by the State relating to the financial effects of P.A. 96-889 on 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 the law firm of Chapman and Cutler LLP to assist the State in reviewing the enforcement action against New Jersey, updating certain of the information contained in this section and drafting the disclosure policies and procedures set forth in the following subsection. The State subsequently engaged the law firm of Mayer Brown LLP 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 disclosure in an official statement or at the time of an update as mandated in the policies and procedures, the disclosure will be submitted to the Retirement Systems, COGFA, the Office of the Comptroller and the Office of the Attorney General for their review and comment.

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

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OTHER POST EMPLOYMENT BENEFITS

PLAN DESCRIPTION

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

FUNDING POLICY AND ANNUAL OPEB COST

Prior to Fiscal Year 2013, the State contributed toward the cost of an annuitant's coverage under the basic program of group health, dental, and vision benefits an amount equal to five percent of that cost for each full year of creditable service up to a maximum of one hundred percent for an annuitant with twenty or more years of creditable service. The amount the State contributed was determined from negotiations with the collective bargaining units within the various retirement systems. With the recent amendment of the Illinois Administrative 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 section of this Official Statement. 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.

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

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

[1]Based on information in the State CAFR.

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

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

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

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

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

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

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

LITIGATION

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

The following describes certain pending lawsuits filed against the State of Illinois:

Tax Protest Litigation

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

Fee Protest Litigation

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

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

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

In January 2008, in the property and casualty insurance case, the Sangamon County 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 is currently being briefed. 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 the motorcyclists' litigation with respect to the final State fund. Following the Sangamon County Court's denial of the motorcyclists' motion to reconsider in January, 2009, the motorcyclists filed an appeal with the Illinois Appellate Court. The appellate court held on May 3, 2010, that the removal of funds was not an unconstitutional taking and that the legislature has the authority to order a transfer of funds. The Supreme Court granted Plaintiffs' Petition for Leave to Appeal on September 28, 2010. The case was argued on March 23, 2011. The Supreme Court affirmed the judgment of the appellate court on October 27, 2011. The Supreme Court issued the mandate in this case on December 2, 2011. A similar case filed in 2005 in Sangamon County by the same motorcyclist's organization was dismissed by agreement after the Supreme Court's ruling.

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

Retaliatory Tax Litigation

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

RATINGS

The State has requested ratings from Moody's Investors Service, Inc. ("Moody's"), Fitch Ratings Inc. ("Fitch") and Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies ("S&P") (collectively referred to as the "Rating Agencies") for its long term General Obligation Bonds (which include the Bonds). As of the date of this Official Statement, the Bonds are rated "A2" with a Negative Outlook by Moody's, "A" with a Negative Outlook from Fitch, and "A-" with a Negative Outlook by S&P. Moody's and S&P are expected to assign ratings of "A2" with a Stable Outlook and "AA-" with a Stable Outlook, respectively, to the Insured Bonds, with an understanding that upon delivery of the Insured Bonds, the Policy guaranteeing the scheduled payment of principal of and interest on the Insured Bonds when due will be issued by AGM.

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

The State will provide appropriate periodic credit information necessary for maintaining ratings on the Bonds to the Rating Agencies. Except as may be required by the Undertaking as defined below under the heading "CONTINUING DISCLOSURE," the State undertakes no responsibility either to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal. If assigned, there is no assurance that any such ratings will be maintained for any given period of time or that they will not be lowered or withdrawn entirely. Any revision or withdrawal of any such ratings may have an adverse effect on the prices at which the Bonds may be resold.

TAX MATTERS

THE SERIES A BONDS

GENERAL

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

ORIGINAL ISSUE DISCOUNT

The issue price for each maturity of the Series A Bonds is the price at which a substantial amount of such maturity is first sold to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) (the "Issue Price"). The Issue Price of certain Series A Bonds ("OID Bonds") may be less than the stated amount payable on such Series A Bonds at maturity. The difference between (i) the stated amount payable at maturity of an OID Bond and (ii) the Issue Price of that OID Bond constitutes original issue discount ("Original Issue Discount") with respect to that OID Bond in the hands of the owner who purchased that OID Bond in the initial public offering.

For federal income tax purposes, original issue discount on each OID Bond will accrue over the term of the OID Bond. The amount accrued will be based on a single rate of interest, compounded semiannually and, during each semi-annual period, the amount will accrue ratably on a daily basis. The original issue discount accrued during the period that an initial purchaser of an OID Bond owns it is added to that purchaser's tax basis for purpose of determining gain or loss at maturity, redemption, sale or disposition of that OID Bond. Therefore, for an OID Bond, accrued OID is treated as stated interest is treated for a tax-exempt bond, that is, is excludible from gross income for federal income tax purposes.

Purchasers of OID Bonds should consult their own tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and the state and local tax consequences of owning an OID Bond.

ORIGINAL ISSUE PREMIUM

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

For federal income tax purposes, Original Issue Premium on a Premium Bond must be amortized by an owner on a constant yield basis over the remaining term of a Premium Bond in a manner that takes into account potential call dates and call prices. An owner of a Premium Bond cannot deduct amortized Original Issue Premium relating to that Premium Bond. The amortized original issue premium for a Premium Bond is treated as a reduction in the tax exempt interest received. As Original Issue Premium is amortized on a Premium Bond, it reduces the owner's basis in the Premium Bond. As a result an owner of a Premium Bond may realize taxable gain for federal income tax purposes from the sale or other disposition of such a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the Issue Price who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

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

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

Reporting and Backup Withholding. Payments of interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the Series A Bonds, are in certain situations required to be reported to the Internal Revenue Service. Backup withholding may also be imposed on such payments to any bondholder who fails to provide certain required information pursuant to Section 6049 of the Code.

Such reporting and backup withholding requirements do not affect the excludability of interest on the Series A Bonds from gross income for federal income tax purposes.

THE SERIES B BONDS

GENERAL

In the opinion of Co-Bond Counsel, under existing law, interest on the Series B Bonds is not excludable from gross income of the owners thereof for federal income tax purposes. Co-Bond Counsel is also of the opinion, under existing law, that interest on the Series B Bonds is not exempt from income taxes imposed by the State. Co-Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to acquisition, ownership or disposition of, or the accrual or receipt of interest on the Series B Bonds. Prospective purchasers of the Series B Bonds should consult their own tax advisors as to the federal, state, local and foreign tax consequences of their acquisition, ownership or disposition of, or the accrual or receipt of interest on the Series B Bonds.

CIRCULAR 230 DISCLAIMER

The description of certain tax matters under the subheading "SERIES B BONDS - *General*" above, prepared by Co-Bond Counsel, is not intended by Co-Bond Counsel to be used, and cannot be used by any purchaser of the Series B Bonds, for the purpose of avoiding penalties that may be imposed on such purchaser. This description is written to support the promotion or marketing of the Series B Bonds.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following discussion summarizes certain U.S federal tax considerations generally applicable to owners of the Series B Bonds that acquire their Series B Bonds in the initial offering. It deals only with Series B Bonds held as capital assets by initial purchasers, and not with special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold their Series B Bonds that are a hedge or that are hedged against currency risks or that are part of a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar. The discussion below is based upon the Code, other laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective purchasers of the Series B Bonds should consult their own tax advisors concerning the consequences, in their particular circumstances, under the Code and the laws of any other taxing jurisdiction, of ownership of the Series B Bonds.

DEFINITIONS OF U.S. HOLDER AND NON-U.S. HOLDER

You are a U.S. Holder for purposes of this discussion if you are a beneficial owner of a Series B Bond for U.S. federal income tax law purposes and you are:

- a citizen or resident of the United States;
- a corporation or partnership which is created or organized in or under the laws of the United States or of any political subdivision thereof;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (2) the trust was in existence on August 10, 1996 and properly elected to continue to be treated as a U.S. person.

The term "non-U.S. Holder" refers to any beneficial owner of a Series B Bond who or which is not a U.S. Holder.

FOR U.S. HOLDERS

Payments of Interest. Interest on the Series B Bonds will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes in accordance with generally applicable principles.

Sale and Retirement of the Series B Bonds. U.S. Holders of the Series B Bonds will recognize gain or loss on the sale, redemption, retirement or other disposition of such Series B Bonds. The gain or loss is measured by the difference between the amount realized on the disposition of the Series B Bonds and the U.S. Holder's adjusted tax basis in the Series B Bond. Such gain or loss will be capital gain or loss, except to the extent of accrued market discount not previously included in income, and will be long term capital gain or loss if at the time of disposition such Series B Bond has been held for more than one year.

Net Investment Income. For taxable years beginning after December 31, 2012, certain non-corporate U.S. Holders will be subject to a 3.8 percent tax, in addition to regular tax on income and gains, on some or all of their "net investment income," which generally will include interest, original issue discount and market discount realized on a Series B Bond and any net gain recognized upon a disposition of a Series B Bond. U.S. Holders should consult their tax advisors regarding the applicability of this tax in respect of their Series B Bonds.

Backup Withholding and Information Reporting. Information reporting will apply to payments of interest made by the State, or the proceeds of the sale or other disposition of the Series B Bond with respect to certain non-corporate U.S. Holders, and backup withholding may apply unless the recipient of such payment supplies a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amounts withheld under the backup withholding rules may be allowed as a refund or credit against that holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

FOR NON-U.S. HOLDERS

Withholding Tax on Payments of Principal and Interest on Series B Bonds. Generally, payments of principal and interest on a Series B Bond will not be subject to U.S. federal withholding tax, *provided* that in the case of an interest payment:

- you are not a bank to whom the Series B Bonds would constitute an extension of credit made pursuant to a loan agreement entered into in the ordinary course of your trade or business; and

- either (A) the beneficial owner of the Series B Bond certifies to the applicable payor or its agent, under penalties of perjury on an IRS Form W-8BEN (or a suitable substitute form), that such owner is not a United States person and provides such owner's name and address or (B) a securities clearing organization, bank or other financial institution, that holds customers' securities in the ordinary course of its trade or business (a "financial institution") and holds the Series B Bond, certifies under penalties of perjury that such an IRS Form W-8BEN (or suitable substitute form) has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and furnishes the payor with a copy thereof.

Except to the extent otherwise provided under an applicable tax treaty, you generally will be taxed in the same manner as a U.S. Holder with respect to interest and original issue discount payments on a Series B Bond if such interest and original issue discount is effectively connected with your conduct of a trade or business in the United States. Effectively connected interest and Original Interest Discount received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or, if applicable, a lower treaty rate), subject to certain adjustments. Such effectively connected interest and original issue discount will not be subject to withholding tax if the holder delivers an IRS Form W-8ECI to the payor.

Gain on Disposition of the Series B Bonds. You generally will not be subject to U.S. federal income tax on gain realized on the sale, exchange or redemption of a Series B Bond unless:

- you are an individual present in the United States for 183 days or more in the year of such sale, exchange or redemption and either (A) you have a "tax home" in the United States and certain other requirements are met, or (B) the gain from the disposition is attributable to your office or other fixed place of business in the United States; or
- the gain is effectively connected with your conduct of a trade or business in the United States.

U.S. Federal Estate Tax. A Series B Bond held by an individual who at the time of death is not a citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) will not be subject to United States federal estate tax if at the time of the individual's death, payments with respect to such Bond would not have been effectively connected with the conduct by such individual of a trade or business in the United States.

Backup Withholding and Information Reporting. Backup withholding and information reporting on Form 1099 will not apply to payments of principal and interest on the Series B Bonds by the State or its agent to a Non-U.S. Holder provided the Non-U.S. Holder provides the certification described above under "*—Withholding Tax on Payments of Principal and Interest on Bonds*" or otherwise establishes an exemption (provided that neither the State nor its agent has actual knowledge that the holder is a United States person or that the conditions of any other exemptions are not in fact satisfied). Interest payments made to a Non U.S. Holder may, however, be reported to the IRS and to such Non U.S. Holder on Form 1042-S.

Information reporting and backup withholding generally will not apply to a payment of the proceeds of a sale of the Series B Bonds effected outside the United States by a foreign office of a foreign broker. However, information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a sale of the Series B Bonds effected outside the United States by a foreign office of a broker if the broker (i) is a United States person, (ii) derives 50 percent or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) is a "controlled foreign corporation" as to the United States, or (iv) is a foreign partnership that, at any time during its taxable year is 50 percent or more (by income or capital interest) owned by United States persons or is engaged in the conduct of a U.S. trade or business, unless in any such case the broker has documentary evidence in its records that the holder is a Non-U.S. holder (and has no actual knowledge to the contrary) and certain conditions are met, or the holder otherwise establishes an exemption. Payment by a United States office of a broker of the proceeds of a sale of the Series B Bonds will be subject to both backup withholding and information reporting unless the holder certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

CHANGES IN FEDERAL TAX AND STATE TAX LAW

From time to time, there are presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states, that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the marketability or market value of the Series A Bonds or otherwise prevent holders of the Series A Bonds from realizing the full benefit of the tax exemption of interest on the Series A Bonds. In addition, other legislative proposals, if enacted into law, may cause interest on the Series A Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent owners of the Series A Bonds from realizing the full current benefit of the tax status of such interest. Further, such proposals may impact the marketability or market value of the Series A Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposals might be enacted or whether if enacted such proposals would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Series A Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series A Bonds would be impacted thereby.

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

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

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

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

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

CONTINUING DISCLOSURE

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

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

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving opinions of Co-Bond Counsel, Mayer Brown LLP, Chicago, Illinois and Burke Burns & Pinelli, Ltd., Chicago, Illinois. 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 C.

FINANCIAL ADVISOR

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

ADDITIONAL INFORMATION

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

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

The Director will provide to the 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.

MISCELLANEOUS

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

The State has authorized the distribution of this Official Statement.

STATE OF ILLINOIS

By: *\/s/* Jerome Stermer

Acting Director, Governor's Office of Management and Budget

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APPENDIX A

CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS

Economic Data

Illinois is a state of diversified economic strength. Personal income and workforce composition in Illinois are similar to that of the United States as a whole. Measured by per capita personal income, Illinois ranks third among the ten most populous states and sixteenth among all states. Illinois ranks third among all states in total cash receipts from crops, second in feed and grain exports, second in soybean and products exports, fifth in exports of all commodities and ranks among the top states in several measures of manufacturing activity. Chicago serves as the transportation center of the Midwest and the headquarters of many of the nation's major corporations and financial institutions. Table A-1 shows Illinois has a historically higher per capita GDP than the Great Lakes Region and the United States. Table A-2 compares the workforce composition of Illinois to that of the United States as a whole. Table A-3 shows the distribution of Illinois non-agricultural employment by industry sector.

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

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

Source: U.S. Department of Commerce, Bureau of Economic Analysis, February 2013.

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

Industry Employment Sector	Illinois	% of Total	U.S.	% of Total
Financial Activities	367	6.4%	7,822	5.8%
Manufacturing	599	10.5%	11,938	8.9%
Trade, Transportation and Utilities	1,145	20.0%	25,720	19.1%
Leisure and Hospitality	534	9.3%	13,861	10.3%
Education and Health Services	866	15.1%	20,460	15.2%
Mining, Logging, Information and Other Services	345	6.0%	9002	6.7%
Government	827	14.4%	21,879	16.3%
Professional and Business Services	864	15.1%	18,117	13.5%
Construction	180	3.1%	5,673	4.2%
Total	**5,726**	**100.0%**	**134,472**	**100.0%**

Source: U.S. Department of Labor, Bureau of Labor Statistics, February 2013.

Table A-3
NON-AGRICULTURAL PAYROLL November 2012
(Thousands of $)

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

Source: U.S. Department of Labor, Bureau of Labor Statistics, February 2013.

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	2011 Rank
Crops	$10,662	$13,077	$13,098	$13,713	$17,220	3
Livestock	2,112	2,121	1.851.2	2,269	2,600	25
Total	**$12,774**	**$15,197**	**$13,098**	**$15,983**	**$19,820**	**6**

Source: U.S. Department of Agriculture-Economic Research Service, February 2013.

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, February 2013.

Contract Construction

Contracts for future construction in Illinois averaged $17.3 billion annually during the period 2007 through 2011 and totaled almost $12 billion in 2011. During the period 2007 through 2011, building permits issued for residential construction averaged 20,107 annually, with an average annual valuation of $3.5 billion. Table A-6 presents annual data on contracts for future construction and residential building activity.

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

	Future Contracts for Residential, Non-residential and Non-building Construction[1]	Residential Building Activity (Privately-Owned Housing Units)[2]	
Year	**Valuation**	**Number of Permits**	**Valuation**
2007	20,876	43,020	6,936
2008	24,457	22,528	3,783
2009	14,724	10,859	2,100
2010	14,338	12,318	2,412
2011	11,966	11,809	2,118

Sources: [1]Department of Commerce and Economic Opportunity.
[2]U.S. Census Bureau, Housing Units Authorized by Building Permits, February 2013.

Personal Income

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

Table A-7
PERSONAL INCOME
($ in Billions)

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

Source: U.S. Department of Labor, Bureau of Labor Statistics, February 2013.

Table A-8

PER CAPITA PERSONAL INCOME

	2007	2008	2009	2010	2011	2011 Rank
Illinois	41,950	43,502	40,865	42,025	43,721	16
United States	39,506	40,947	38,637	39,791	41,560	--
Ten Most Populous States:*						
New York	47,852	49,369	46,699	48,450	51,126	1
Illinois	41,950	43,498	41,058	42,057	43,721	**2**
California	43,211	43,993	41,353	42,578	43,647	3
Pennsylvania	38,927	40,671	39,420	40,599	42,291	4
Texas	37,098	39,704	36,458	37,706	40,147	5
Florida	39,256	39,958	37,387	38,222	39,636	6
Ohio	35,183	36,392	35,145	36,180	37,791	7
Michigan	34,419	35,282	33,514	34,691	36,264	8
North Carolina	34,761	35,740	34,108	34,977	36,028	9
Georgia	35,369	35,863	34,081	34,800	35,979	10
Great Lakes States:						
Illinois	41,950	43,502	40,865	42,025	43,721	**1**
Wisconsin	36,831	38,172	36,859	38,010	39,575	2
Ohio	35,183	36,401	35,001	35,931	37,836	3
Michigan	34,419	35,288	33,221	34,326	36,264	4
Indiana	33,645	34,894	33,163	34,028	35,689	5

*United States Census Bureau, 2010 Census, September 2012.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, February 2013.

Employment

Table A-9

NUMBER OF UNEMPLOYED

	2008	2009	2010	2011	2012*
United States	8,924,000	15,142,000	14,876,000	12,613,000	12,042,000
Illinois	433,700	674,692	620,983	627,586	574,902
Bloomington-Normal MSA	4,573	6,495	7,201	6,320	5,643
Champaign-Urbana MSA	6,929	9,987	11,038	9,400	8,430
Chicago PMSA	303,175	487,453	496,036	465,543	405,055
Danville-MSA	2,971	4,201	4,547	3,617	3,533
Davenport-Moline-Rock Island MSA	10,772	15,884	17,127	14,846	12,705
Decatur MSA	3,825	6,166	6,502	5,406	5,547
Kankakee MSA	4,803	6,746	7,511	6,342	5,720
Peoria-Pekin MSA	11,296	20,850	20,812	16,483	15,696
Rockford MSA	15,347	25,332	26,830	20,149	17,672
Springfield MSA	6,568	8,390	9,433	8,699	8,097

*Data as of November 2012.
Source: United States Department of Labor, Bureau of Labor Statistics Data, February 2013.

Table A-10
UNEMPLOYED RATE (%)

	2008	2009	2010	2011	2012*
United States	5.8	10	9.7	8.2	7.8
Illinois	6.5	10.1	9.8	9.4	8.7
Bloomington-Normal MSA	5.1	7.2	7.5	6.8	6.1
Champaign-Urbana MSA	5.7	8.3	9	7.8	7.2
Chicago PMSA	6.2	10	10.2	9.6	8.3
Danville MSA	8.2	11.5	12.1	9.9	9.9
Davenport-Moline-Rock Island	5.2	8.1	8.4	7.3	6.4
Decatur MSA	7.2	11.4	11.8	9.9	10.2
Kankakee MSA	8.8	12.1	13.1	10.8	10
Peoria-Pekin MSA	5.7	10.4	10.2	7.9	7.7
Rockford MSA	9.1	15	15.3	11.9	10.5
Springfield MSA	5.9	7.4	8	7.4	6.9

*Data as of November 2012.
Source: United States Department of Labor, Bureau of Labor Statistics Data, February 2013.
Note: U.S. BLS dropped Quad Cities Region and St. Louis MSA, IL portion and added Danville and Davenport-Moline-Rock Island MSAs.

Population

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

Table A-11
POPULATION
ILLINOIS AND SELECTED METROPOLITAN STATISTICAL AREAS

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

Source: U.S. Bureau of the Census, Population Division, Annual Estimates of the Population for Metropolitan Areas of Illinois, January 2013.
Note: Population data for 1980 and 1990 were adjusted to reflect Metropolitan Statistical Area definitions.

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APPENDIX B

SUMMARY OF CERTAIN INFORMATION REGARDING THE ILLINOIS PENSION SYSTEMS

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

<u>Teachers' Retirement System ("TRS")</u>

<table>
<tr><td>A. Coverage</td><td>TRS members include all full-time, part-time, and substitute Illinois public school personnel employed outside the City of Chicago in positions requiring certification by the Illinois State Board of Education. Persons employed in certain State agencies relating to education are also TRS members.</td></tr>
<tr><td>B. Benefit Formula</td><td><u>Tier 1 Employees (hired prior to January 1, 2011)</u>
Based on the member's highest average salary earned during 4 consecutive years of service within the last 10 years of service.
For post-June 1998 service, this average salary is multiplied by 2.2 % for each year of service.
For service earned before July 1998 that is not upgraded to the 2.2% formula, the average salary is multiplied according to the following formula:
1.67% for each of the first 10 years, plus
1.90% for each of the second 10 years, plus
2.10% for each of the third 10 years, plus
2.30% for each year over 30.
The benefit maximum is 75% of final average salary.
<u>Tier 2 Employees (hired on or after January 1, 2011)</u>
Based on the member's highest average salary earned during 8 consecutive years within the last 10 years of service.
The maximum salary for the purpose of calculating benefits is $106,800, adjusted annually by 3% or one-half of CPI (whichever is less).
The same average salary multiplier and benefit maximum as Tier 1 Employees.</td></tr>
<tr><td>C. Retirement Age & Service Requirements</td><td><u>Tier 1 Employees</u>
Age 62 with 5 years of service.
Age 60 with 10 years of service.
Age 55 with 35 years of service.
Reduced Benefit: Age 55 with 20 years of service; annuity reduced by 1/2 of 1% for each month under age 60. A member can avoid a discounted annuity if the member makes a one-time contribution of 11.5% for each year under age 60 or under 35 years of service, whichever is less, and the school district contributes 23.5% percent for each year under age 60.
<u>Tier 2 Employees</u>
Age 67 with 10 years of service.
Reduced Benefit: Age 62, with at least 10 years of service; annuity reduced by 1/2 of 1% for each month under age 67.</td></tr>
<tr><td>D. Surviving Spouse Benefit</td><td><u>Tier 1 Employees</u>
An eligible survivor receives a minimum of 50% of the member's annuity, or 50% of the projected non-reduced benefit if death occurs when the member is actively contributing to TRS.
<u>Tier 2 Employees</u>
An eligible survivor receives 66 2/3% of the member's annuity, or 66 2/3% of the projected non-reduced benefit if death occurs when the member is actively contributing to TRS.</td></tr>
</table>

E. Refunds	Employee contributions, not including interest or contributions for survivor benefits.

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

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State Universities Retirement System ("SURS")

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

<table>
<tr><td>B. Benefit Formulas</td><td>Defined Benefit Plans (Traditional Benefit Plan and Portable Benefit Plan)
Benefits are calculated based on years of service and final rate of earnings ("FRE") using 3 primary calculations for which SURS has developed formula tables—a General Formula, a Money Purchase Formula (not available to participants hired on or after July 1, 2005), and a Minimum Annuity. There is a special formula for police and firefighters.
<u>Tier 1 Employees (hired prior to January 1, 2011)</u>
• Based on final rate of earnings ("FRE"), i.e., (a) highest average earnings during 4 consecutive academic years or (b) the average of the last 4 years prior to termination (applicable only to certain employees).
• FRE is limited to 20% year-to-year increases in earnings during the FRE period.
• Employment termination before July 7, 1997: The benefit maximum under any formula at age 62 or earlier cannot exceed 75% of FRE. The maximum is 76% at age 63, 78% at age 64, and 80% at age 65 or later. A person who began participation after September 14, 1977, is subject to a maximum of 75% of FRE.
• Employment terminated on or after July 7, 1997: The benefit maximum under any formula cannot exceed 80% of FRE.
<u>Tier 2 Employees (hired on or after January 1, 2011)</u>
• FRE is the highest average rate of earnings during 8 consecutive years within the last 10 years of service.
• FRE is limited to 20% increases in earnings during the FRE period. The maximum salary for FRE purposes is $106,800, adjusted annually by 3% or one-half of CPI (whichever is less).
• The benefit maximum is 80% of FRE.
<u>Police & Firefighters</u>
• For those retiring after 1997 with 20 years of service as a firefighter or police officer, the FRE shall be the annual rate of earnings received by the members on his or her last day, if that is greater than the FRE otherwise applicable.
• Special Formula: 2.25% for each of the first 10 years of such service, plus 2.5% for each of the second 10 years, plus 2.75% for each year thereafter.
• The benefit maximum is 80% of FRE.
<u>Money Purchase Formula</u>:
• The member contributions for retirement benefits accumulated (a) with interest at the Effective Rate of Interest ("ERI"), plus (b) an imputed employer contribution match at $1.40 per dollar of member contribution accumulated with interest at the ERI.
• The total of the accumulations in (a) and (b) is converted into an annuity using a life annuity factor that takes into account neither the automatic 50% spousal survivor benefit nor the automatic annual increases.
• ERI means the interest rate credited to member contribution accounts for most purposes. Effective beginning with Fiscal Year 2006, ERI for the purpose of determining the money purchase benefit is established annually by the Comptroller.

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

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

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

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State Employees' Retirement System ("SERS")

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

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

Judges' Retirement System ("JRS")

A. Coverage	The Judges' Retirement System covers all persons elected or appointed judges or associate judges and, under certain conditions, the Administrative Director of the Illinois courts.

B. Benefit Formula	Tier 1 Employees (hired prior to January 1, 2011)
	• Based on the member's final rate of salary, or, for any member terminating service after July 14, 1995, on the highest salary received as a judge for at least 4 consecutive years, whichever is greater, after 20 years of service.
	• Formula:
	  o 3.5% for the first 10 years of service.
	  o 5.0% for each year after 10 years.
	• The benefit maximum is 85% of final average salary.
	Tier 2 Employees (hired on or after January 1, 2011)
	• Based on the member's final average salary, i.e., the highest average salary earned during 8 consecutive years within the last 10 years of service.
	• The maximum salary for the purpose of calculating benefits is $106,800, adjusted annually by 3% or the annual change in CPI (whichever is less).
	• Formula: 3% of the member's final average salary for each year of service.
	• The benefit maximum is 60% of the member's final average salary.

C. Retirement Age & Service Requirements	Tier 1 Employees • At age 55 with 26 years of service. • At age 60 with 10 years of service. • At age 62 with 6 years of service. • *Reduced Benefit:* Age 55 with 10 years of service; annuity reduced by 1/2 of 1% for each month under age 60. However, for a member who retires on or after December 10, 1999, the percentage reduction in the annuity shall be reduced by 5/12 of 1% for every month of service in excess of 20 years. Tier 2 Employees • Age 67 with 8 years of service • *Reduced Benefit:* Age 62, with at least 8 years of service; annuity reduced by 1/2 of 1% for each month under age 62.
D. Surviving Spouse Benefit	Tier 1 Employees • *Death in Service:* 7.5% of salary or 66 2/3% of earned retirement annuity, whichever is greater. • *Death in Retirement:* 66 2/3% of earned retirement annuity. Tier 2 Employees • An eligible survivor receives 66 2/3% of the member's annuity.
E. Refunds	Employee contributions without interest.

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

General Assembly Retirement System (“GARS”)

A. Coverage	GARS covers members of the General Assembly of the State and persons elected to the offices of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller and Attorney General for the period of service in such offices. Any person who has served 10 or more years as Clerk or Assistant Clerk of the House of Representatives, Secretary or Assistant Secretary of the Senate or any combination thereof, may elect to become a participant.

B. Benefit Formula	Tier 1 Employees (hired prior to January 1, 2011)
	• Based on the member’s final rate of salary.
	• Formula:
	  o 3.0% for the first 4 years of service.
	  o 3.5% for the next 2 years of service.
	  o 4.0% for the next 2 years of service.
	  o 4.5% for the next 4 years of service.
	  o 5.0% for each year after 12 years.
	• The benefit maximum is 85% of final salary.
	Tier 2 Employees (hired on or after January 1, 2011)
	• Based on the member’s final average salary, i.e., the highest average salary earned during 8 consecutive years within the last 10 years of service.
	• The maximum salary for the purpose of calculating benefits is $106,800, adjusted annually by 3% or the annual change in CPI (whichever is less).
	• Formula: 3% of the member’s final average salary for each year of service.
	• The benefit maximum is 60% of the member’s final average salary.

C. Retirement Age & Service Requirements	Tier 1 Employees • Age 55 with 8 years of service. • Age 62 with 4 years of service. Tier 2 Employees • Age 67 with 8 years of service • *Reduced Benefit:* Age 62, with at least 8 years of service; annuity reduced by 1/2 of 1% for each month under age 67.
D. Surviving Spouse Benefit	Tier 1 Employees • Survivor benefits vary depending on amount of earned pension benefit, time of death, and whether dependent or disabled children are being supported. In most cases, an eligible survivor receives a 66 2/3% of the member’s annuity. Tier 2 Employees • An eligible survivor receives 66 2/3% of the member’s annuity.
E. Refunds	Employee contributions without interest.

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

APPENDIX C

FORM OF APPROVING OPINIONS OF CO-BOND COUNSEL

SERIES A OF APRIL 2013 BONDS

[TO BE DATED CLOSING DATE]

State of Illinois
Springfield, Illinois

Re: $450,000,000 State of Illinois General Obligation Bonds,
Series A of April 2013

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the State of Illinois (the "State") of its $450,000,000 General Obligation Bonds, Series A of April 2013 (the "Series A Bonds"). The Series A Bonds are being issued pursuant to the provisions of Section 9(b) of Article IX of the Illinois Constitution of 1970, the General Obligation Bond Act, 20 Illinois Compiled Statutes 330/1 *et. seq.*, and a Bond Sale Order dated March 12, 2013 (the "Bond Sale Order").

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

Maturity (April 1)	Principal Amount ($)	Interest Rate (%)
2014	18,000,000	2.000
2015	18,000,000	5.000
2016	18,000,000	5.000
2017	18,000,000	5.000
2018	18,000,000	5.000
2019	18,000,000	5.000
2020	18,000,000	5.000
2021	18,000,000	5.000
2022	18,000,000	5.000
2023	18,000,000	5.000
2024	18,000,000	5.000
2025	18,000,000	5.000
2026	18,000,000	5.000
2027	18,000,000	5.000
2028	18,000,000	5.000
2029	18,000,000	5.000
2030	18,000,000	4.000
2031	18,000,000	4.000
2032	18,000,000	4.000
2033	18,000,000	4.125
2034	18,000,000	4.125
2035	18,000,000	5.000
2036	18,000,000	5.000
2038	36,000,000	5.000

The Series A Bonds are subject to optional redemption and sinking fund redemption as set forth in the Final Official Statement dated April 2, 2013.

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

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

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

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

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

4. Interest on the Series A Bonds is excludable from the gross income of the owners thereof for federal income tax purposes assuming the accuracy of the Certifications and the

continued compliance by the State with the requirements of the Internal Revenue Code of 1986, as amended. Failure to comply with such requirements could cause interest on the Series A Bonds to be includable in gross income retroactively to the date of issuance of the Series A Bonds.

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

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

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

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

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

Very truly yours,

FORM OF APPROVING OPINION OF CO-BOND COUNSEL

TAXABLE SERIES B BONDS

[TO BE DATED CLOSING DATE]

State of Illinois
Springfield, Illinois

Re: $350,000,000 State of Illinois General Obligation Bonds,
Taxable Series B of April 2013

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the State of Illinois (the "State") of its $350,000,000 General Obligation Bonds, Taxable Series B of April 2013 (the "Series B Bonds"). The Series B Bonds are being issued pursuant to the provisions of Section 9(b) of Article IX of the Illinois Constitution of 1970, the General Obligation Bond Act, 20 Illinois Compiled Statutes 330/1 et. seq., and a Bond Sale Order dated March 12, 2013 (the "Bond Sale Order").

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

Maturity (April 1)	Principal Amount ($)	Interest Rate (%)
2014	14,000,000	1.100
2015	14,000,000	1.430
2016	14,000,000	1.780
2017	14,000,000	2.420
2018	14,000,000	2.770
2019	14,000,000	3.250
2020	14,000,000	3.650
2021	14,000,000	3.860
2022	14,000,000	4.110
2023	14,000,000	4.310
2024	14,000,000	4.460
2025	14,000,000	4.610
2026	14,000,000	4.760
2027	14,000,000	4.910
2028	14,000,000	5.010
2038	140,000,000	5.520

The Series B Bonds are subject to optional redemption and sinking fund redemption as set forth in the Final Official Statement dated April 2, 2013.

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

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

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

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

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

4. Interest on the Series B Bonds is not excludable from the gross income of the owners thereof for federal income tax purposes. Pursuant to Circular 230, the opinion set forth in this paragraph is not intended or written by Co-Bond Counsel to be used, and cannot be used by any person, for the purpose of avoiding tax penalties that may be imposed under U.S. tax laws. Such opinion is provided to support an offering of the Series B Bonds, and accordingly is written in support of the promotion or marketing of the Series B Bonds. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor concerning the potential tax consequences of an investment in the Series B Bonds.

5. Interest on the Series B Bonds is not exempt from State of Illinois income taxes.

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

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

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

Very truly yours,

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APPENDIX D

SUMMARY OF RECOMMENDATIONS FROM THE STATE ACTUARY REGARDING THE ILLINOIS PENSION SYSTEMS

RECOMMENDATIONS TO THE RETIREMENT SYSTEMS					
Recommendations	**TRS**	**SURS**	**SERS**	**JRS**	**GARS**
Recommended Changes to Actuarial Assumptions used in the 2012 Actuarial Valuations:					
Cheiron reviewed the actuarial assumptions and concluded that they were reasonable. Consequently, Cheiron did not have any recommended changes to assumptions this year.					
Recommended Additional Disclosures for the 2012 Actuarial Valuations:					
• Disclose the merit pay increase assumption by age and active employment status	X				
• Disclose how the New Entrant Profile assumption was developed	X	X		X	X
• Include projections of the maximum contribution calculation without Government Obligation Bonds		X			
• Offer an explanation of the loss due to retirees from active status			X		
• Explore the actuarial liability loss item for salary increases of inactive members and add an actuarial assumption if necessary					X
Recommended Changes for Future Actuarial Valuations:					
• Consider lowering the interest rate assumption below its current level and annually review the interest rate assumption	X	X	X		
• Provide better explanation of unexplained annual liability losses	X				
• Consider establishing a corridor around the market value of assets of 80% to 120% beyond which the actuarial value is limited	X	X	X	X	X
• Include a complete disability incidence table		X			
• Continued examination of the recurring loss for benefit recipients and adjustment to assumptions if the loss persists		X			
• Demonstrate the development of the capped pay calculation		X			
• Consider increasing the 1% of salary load for disability benefits			X		
• Disclose the specific data referred to in the description as to how the New Entrant Profile assumption was developed			X		
• Consider using a fully generational mortality table				X	X
• Consider using actual data available rather than an assumption for determining if a member will choose a benefit option that provides a survivor annuity				X	
• Consider eliminating the disability assumption				X	X
Source: OAG summary of Cheiron's preliminary reports to the five State-funded retirement systems.					

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APPENDIX E

GLOBAL BOOK-ENTRY SYSTEM

General. The Bonds will be available only in book entry form. DTC will act as the initial securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered bond certificates will be issued for the Bonds of each series and maturity, in the aggregate principal amount thereof, and will be deposited with DTC.

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

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

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount of such maturity, and an additional certificate will be issued with respect to any remaining principal amount of such maturity.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over

100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds 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. However, with respect to the optional redemption of Bonds as described in this Official Statement, the Bond Registrar is required to instruct DTC to select specific Bonds for redemption using the "pro rata" method described herein.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The

Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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APPENDIX F

CONTINUING DISCLOSURE UNDERTAKING

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

ANNUAL FINANCIAL INFORMATION DISCLOSURE

The State covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (as described below) through the Electronic Municipal Market Access ("EMMA") system established by the Municipal Securities Rulemaking Board (the "MSRB") for purposes of the Rule. The State is required to deliver such information so that such entities receive the information by the dates specified in the Undertaking and described below.

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by specific reference to other documents available to the public on the MSRB's Internet website, or filed with the SEC. If the information included by reference is contained in a final official statement, the final official statement must be submitted by the State through EMMA.

"*Annual Financial Information*" means financial information and operating data of the type contained herein (i) in Tables 2 through 5 under the heading "STATE FINANCIAL INFORMATION", (ii) in Tables 7, 8, 11, 12 and 15 under the heading "INDEBTEDNESS", (iii) in Tables 24 and 25 under the heading "PENSION SYSTEMS" and (iv) in Table 35B under the heading "OTHER POST EMPLOYMENT BENEFITS". Annual Financial Information exclusive of Audited Financial Statements will be provided through EMMA by 330 days after the last day of the State's fiscal year, which is currently June 30 of each year.

"*Audited Financial Statements*" means the General Purpose Financial Statements of the State prepared in accordance with generally accepted accounting principles applicable to governmental units. Audited Financial Statements will be provided through EMMA within 30 days after availability to the GOMB. Audited Financial Statements are also available from the Comptroller as described in this Official Statement under the heading "State Financial Information—GAAP Financial Report."

MATERIAL EVENTS DISCLOSURE

The State covenants that it will disseminate through EMMA for purposes of the Rule in a timely manner, not in excess of ten business days after occurrence of an Event (as described below), notice of the occurrence of such Event with respect to the Bonds. The "Events", certain of which may not be applicable to the Bonds, are:

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material

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

- Modifications to rights of security holders, if material;

- Bond calls, if material (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event);

- Tender offers;

- Defeasances;

- Release, substitution or sale of property securing repayment of the securities, if material;

- Rating changes;

- Bankruptcy, insolvency, receivership or similar event of the State (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State);

- The consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

- Appointment of a successor or additional trustee or the change of name of a trustee, if material.

CONSEQUENCES OF FAILURE OF THE STATE TO PROVIDE INFORMATION

The State will give timely notice through EMMA of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when they are due under the Undertaking.

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

AMENDMENT; WAIVER

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

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

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

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

TERMINATION OF UNDERTAKING

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

ADDITIONAL INFORMATION

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

DISSEMINATION AGENT

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

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APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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ASSURED GUARANTY MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No: -N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc. (212) 826-0100
31 West 52nd Street, New York, N.Y. 10019

Form 500NY (5/90)

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