

State of Illinois

General Obligation Bonds – Rating Agency Presentation

March 22, 2018

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The State's Credit Fundamentals Have Improved Significantly

- The State's outstanding bills have been reduced substantially using the proceeds from the $6.0 billion of general obligation bonds issued in 2017 and $2.2 billion of additional federal funds
- By the end of FY18, the bill backlog is expected to be approximately $7.7 billion, or just above the bill backlog average from December 2010 to FYE15 of $7.1 billion

Inherent Credit Strengths

- ✓ Sovereign State with significant revenue flexibility
- ✓ Illinois' economy is the 5th largest in the United States and 19th largest worldwide
- ✓ Statutory provisions gives priority to debt service over other State expenditures
- ✓ GO Bond debt service has a continuing appropriation, insulating it from political debates
- ✓ Debt service is limited to no more than 7% of General Funds and Road Fund Appropriations, unless waived by the Treasurer, the Comptroller, or by Statute
- ✓ After FY19 pension bonds debt service declines by $980 million, providing significant financial flexibility

Recent Positive Developments

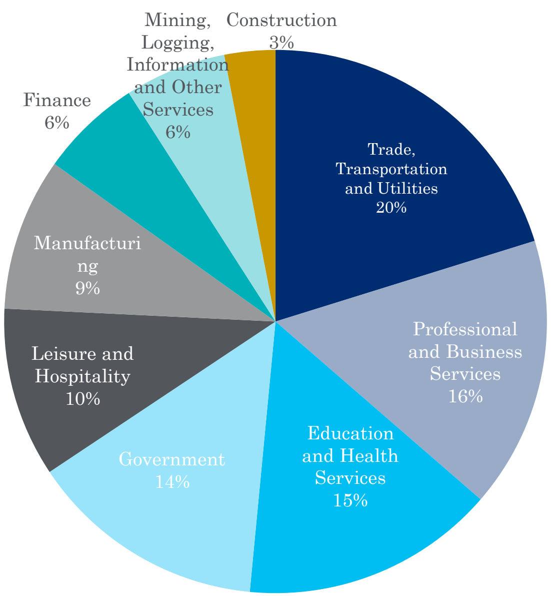
- ✓ Passage of FY18 Budget
- ✓ Increased projected revenues
- ✓ Passage of Senate Bill 1947 remedied education funding disparities and provided certainty of funding to school districts
- ✓ Reauthorization of Edge Tax Credits to allow the State to compete for major economic development projects
- ✓ Reduced risk to swap counterparties by renegotiating rating triggers

1. Illinois' Strong and Diverse Economy

Illinois’ Strong Economic Foundation

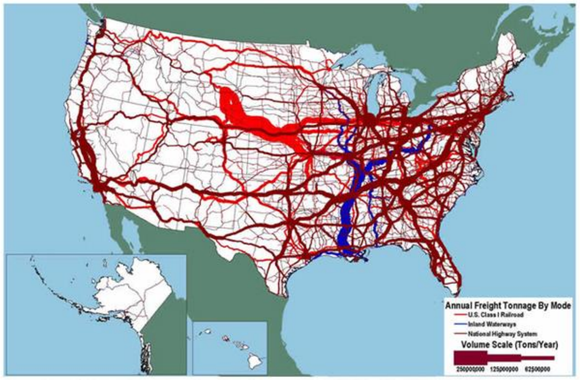
Strong and Diverse Economy

- ✓ Broad employment base with no industry accounting for more than 20%
- ✓ Illinois is well-positioned for long-term stability through economic cycles
- ✓ State’s diversified economy is a major attraction for workers and recent graduates across the nation



Expansive Transportation Network

- ✓ The State is home to the 2nd and 25th busiest U.S. airports in O’Hare and Midway
- ✓ O’Hare is the Best Connected Airport in the US according to MIT’s Airport Connectivity Quality Index
- ✓ Illinois is the only state where all 7 class I railroads in the United States operate. Train transit ridership is up nearly 54% over the past decade
- ✓ Five Major Trucking Routes Intersect in the State



Highly Educated Population

- ✓ Illinois is home to top ranked universities bringing talented and educated individuals to the State
- ✓ 32.3% of Illinois residents have college degrees, well above the US at 29.8% and the Great Lakes States at 26.2%

ILLINOIS

LOYOLA UNIVERSITY CHICAGO

UIC

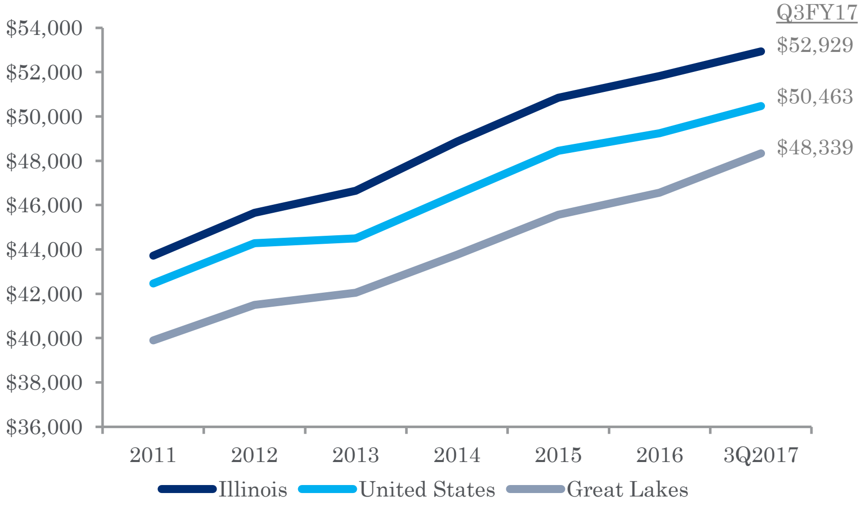
Northern Illinois University

DEPAUL UNIVERSITY

Illinois' Robust Economic Indicators

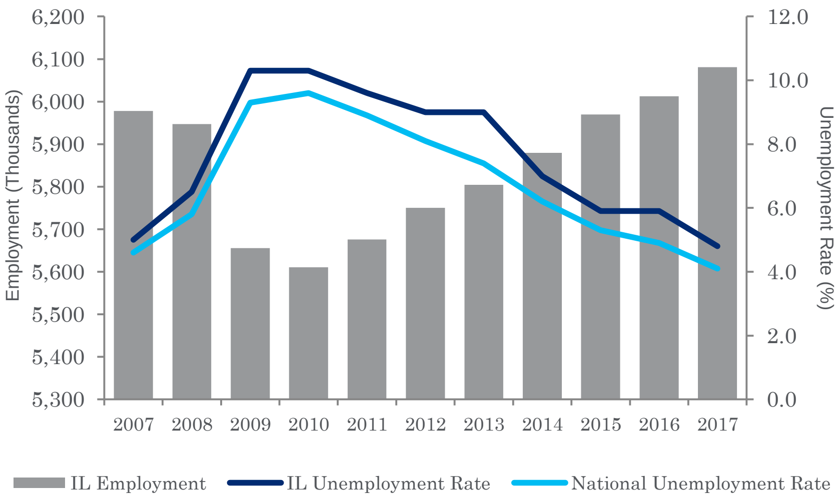
Per Capita Personal Income[1]

Illinois' Per Capita income is ranked 3rd among the 10 largest states.



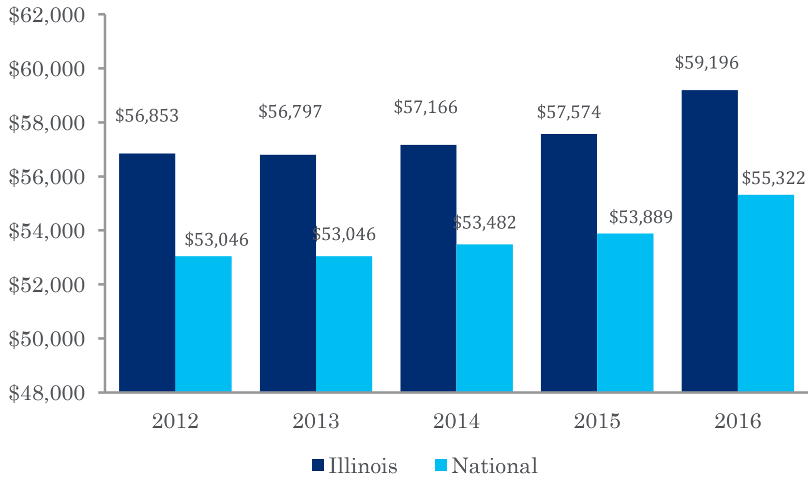
Average Non-farm Employment and Unemployment[1,2]

Employment increased with jobs exceeding 6.0 million in 2017.



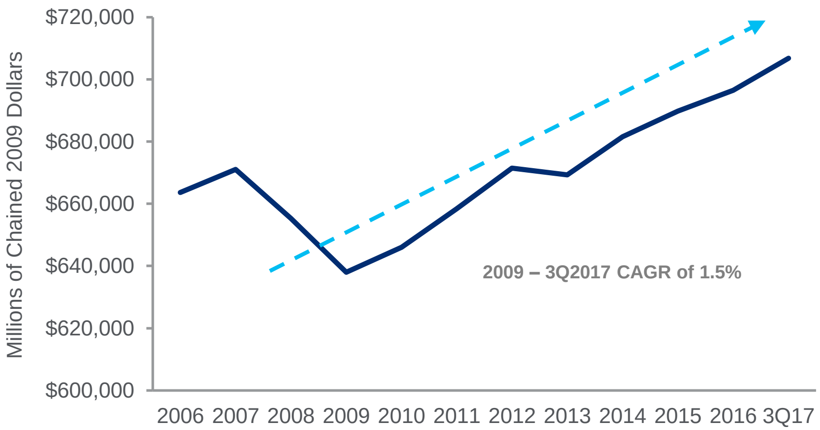
Median Household Income[3]

Illinois' median household income continues to outpace the nation and in 2016 grew by 2.82% compared to growth of 2.66% seen nationally.



Upward Trend in IL Real GDP[4]

In 3Q2017 Illinois' $706 Billion GDP ranked 5th in the nation behind Florida and would rank 19th in the world ahead of Switzerland.



Source: Bureau of Economic Analysis; Bureau of Labor Statistics; U.S. Census Bureau

Note: 1. YTD averages 2. As of 3/2018, not seasonally-adjusted 3. American Community Survey 5-Year Estimates 4. Bureau of Economic Analysis 2017, data as of 3/2018.

Economic Developments

- The State recently reauthorized the Economic Development For a Growing Economy Tax Credit Program (EDGE) to provide special tax incentives to encourage companies to locate or expand operations in Illinois when there is active consideration of a competing location in another state
- For three years in a row, Site Selection Magazine has named the Chicago Metropolitan Region as #1 U.S. Metro for new projects, showing progress in how Illinois, and specifically Chicago, is viewed in the business community
- In calendar year 2017, a record-high 55.2 million tourists visited Chicago, a 2.5% increase from the previous year
- Amazon has built 9 new multi-million square foot distribution centers throughout Illinois providing for over 8,000 jobs and over $500 million in investments
- Amazon is conducting a search for a location for its second headquarters. The company says this new location will create up to 50,000 jobs. Chicago has made the shortlist of potential candidates
- Companies such as Google and Facebook are reportedly looking to expand their operations in the Chicago area
- Illinois exports[1] increased by 8% from $5.1 billion in December 2016 to $5.5 billion in December 2017

[1] Data on U.S. exports of merchandise from the U.S. to all countries, except Canada, is compiled from the Electronic Export Information (EEI) filed by the US Principal Party in Interest (USPPI) or their agents through the Automated Export System (AES). The EEI is unique among Census Bureau data collection methods since it is not sent to respondents soliciting responses as in the case of surveys. Each EEI represents a shipment of one or more kinds of merchandise from one exporter to one foreign importer on a single carrier. Filing the EEI is mandatory under Chapter 9, Title 13, United States Code. Qualified exporters or their agents submit EEI data by automated means directly to the U.S. Census Bureau

2. FY 2018 Budget Update

FY 2018 Budget Overview

Highlights

- The Budget Impasse ended on July 6, 2017, when the State enacted a full-year budget for fiscal year 2018
- Income Tax rates increased from 3.75% to 4.95% for individuals and from 5.25% to 7.00% for corporations, generating an estimated $4.5 billion of additional revenue for fiscal year 2018 and more in future years
- $6.0 billion of general obligation bonds were authorized and issued to pay down the bill backlog; $4 billion paid for group health insurance, $2.5 billion for Medicaid (generating an additional $2.2 billion in federal match)
- Appropriations for education increased by over $490 million, driven by an evidence-based funding bill that revamps the previous education funding formula[1]
- The Comptroller received authority to make one-time transfers during fiscal year 2018 of specific amounts from specific funds in the State Treasury, up to a total of $292.8 million, into the General Funds and the Health Insurance Reserve Fund, to improve stability in the funds and reduce the backlog of bills
- The Comptroller received authority to temporarily borrow available balances of up to $1.2 billion in other state funds in the State Treasury for deposit into the General Funds or the Health Insurance Reserve Fund prior to December 31, 2018 in order to meet cash flow deficits and to maintain liquidity in those funds. Any such interfund borrowing must be paid back to the fund from which it was borrowed within 24 months
- "General Funds" was redefined to include the Fund for the Advancement of Education, Commitment to Human Services Fund and Budget Stabilization Fund along with the Common School Fund, General Revenue-Common School Special Account Fund, Education Assistance Fund, and General Revenue Fund
- Starting in fiscal year 2018, State income and sales tax revenue shared with local governments flows directly into the Local Government Distributive Fund, the Public Transportation Fund and the Downstate Public Transportation Fund as revenues are collected rather than first being deposited in the General Revenue Fund for transfer to the other funds

[1] See ISBE website for more information on evidence-based funding at: https://www.isbe.net/Documents/EBF_Presentation_Overview.pdf

FY 2018 Revenue Update

- General Funds revenues are expected to be $36.8 billion, nearly $6.5 billion higher than FY17
- Net individual and corporate income taxes are estimated to increase by $4.5 billion
  - Increases reflect changes in individual and corporate income tax rates – individual up to 4.95% from 3.75%, corporate up to 7.00% from 5.25%
- Net sales taxes are estimated to total $7.95 billion
- An estimated $1.56 billion will be direct deposited into the local government sharing funds[1] instead of first being deposited in the General Revenue Fund
- Transfers In are projected to increase to $1.7 billion, up from $1.5 billion
- Federal sources are estimated to increase by approximately $935 million to $3.4 billion
  - $1.2 billion in federal reimbursements received in FY18 for FY17 Medicaid bills paid with bond proceeds in November 2017 are not included in the FY18 totals
- Fund reallocations and interfund borrowing of $875 million

General Fund Revenue Estimate

($ millions)	Actual FY 2017	Estimated FY 2018	% Change	$ Change
RESOURCES				
State Sources: Revenues				
Net Individual Income Taxes	13,661	17,610	28.9%	3,949
Net Corporate Income Taxes	1,332	1,884	41.4%	552
Net Sales Taxes	8,043	7,951	(1.1%)	(92)
Public Utility Taxes	884	890	0.7%	6
All Other Sources	2,388	2,438	2.1%	50
Total Revenues	**26,308**	**30,773**	**17.0%**	**4,465**
State Sources: Transfers In				
Lottery	720	719	(0.2%)	(1)
Riverboat Gaming	270	270	(0.1%)	(0)
Other Transfers	552	729	32.0%	177
Total Transfers In	**1,542**	**1,717**	11.4%	**175**
Total State Sources	**27,850**	**32,490**	**16.7%**	**4,640**
Federal Sources	2,483	3,418	37.6%	935
SUBTOTAL, RESOURCES	**30,333**	**35,908**	**18.4%**	**5,575**
Interfund Borrowing and Fund Reallocations	-	875		875
TOTAL RESOURCES	**30,333**	**36,783**	**21.3%**	**6,450**

1. Local Government Distributive Fund (LGDF), Public Transportation Fund (PTF), and Downstate Public Transportation Fund (DPTF)

Note: General Funds was redefined for FY18 to include the Commitment to Human Services Fund (HSF), the Fund for the Advancement of Education (FAE) and the Budget Stabilization Fund (BSF) in the definition of General Funds. The FY17 revenue actuals in this table reflect the new definition

FY 2018 Expenditure Update

- Total estimated expenditures of $37.4 billion
- Elementary and Secondary education appropriations are up $493 million (not including the $221 million contribution to the Chicago teachers' pension system)
- Pension numbers in the table reflect recertifications of FY18 pension contributions estimated by the systems. The general fund pension contributions will increase by $51 million.
- FY18 appropriations include a full GRF appropriation of $1.86 billion for State employee and retiree health insurance (this represents the normal cost for a fiscal year)
  - No deposits were made in FY16 or FY17 to the Health Insurance Reserve Fund due to the budget impasse, but $4 billion from the backlog borrowing effectively covered those liabilities
- Statutory transfers out are projected to decline by $1.8 billion, reflecting the switch to direct deposit of local government revenue sharing
- Current Medicaid backlog stands at $950 million as of the end of February

General Fund Expenses Estimate

($ millions)	Actual FY 2017	Estimated FY 2018	% Change	$ Change
EXPENDITURES				
1. Education	**9,597**	**9,716**	**1.2%**	**119**
K-12 Education	7,490	7,983	6.6%	493
Higher Education	2,106	1,733	(17.7%)	(373)
2. Economic Development	**41**	**79**	**92.9%**	**38**
3. Public Safety	**1,549**	**1,759**	**13.6%**	**210**
4. Human Services [1]	**6,668**	**6,073**	**(8.9%)**	**(595)**
5. Healthcare [2]	**7,169**	**7,119**	**(0.7%)**	**(50)**
6. Environment and Culture	**61**	**57**	**(6.7%)**	**(4)**
7. Government Services	**1,385**	**3,189**	**130.3%**	**1,804**
Group Health Insurance	-	1,858		1,858
Government Services	1,385	1,331	(3.9%)	(54)
8. Pensions [3]	**6,951**	**7,002**	**0.7%**	**51**
K-12 Education Pensions	3,987	4,095	2.7%	108
State Universities' Pensions	1,501	1,414	(5.8%)	(87)
State Employees' Pensions	1,462	1,493	2.1%	30
9. Unspent Appropriations	**(2,404)**	**(1,012)**	**(57.9%)**	**1,392**
Total Operating Budget	**31,016**	**33,981**	**9.6%**	**2,965**
Statutory Transfers Out	2,400	586	(75.6%)	(1,815)
Debt Service: Capital and Pension Bond	2,235	2,280	2.0%	45
Debt Service: Backlog Borrowing	-	527		527
Total Additional Expenditures	**4,636**	**3,392**	**(26.8%)**	**(1,243)**
TOTAL EXPENDITURES	**35,651**	**37,373**	**4.8%**	**1,722**

1 Department of Human Services FY17 general funds' appropriations included a $51 million appropriated deposit from the General Revenue Fund to the Commitment to Human Services Fund. As both of these funds now fall under the definition of general funds, this appropriation represents an intra-fund movement of cash and, like intra-fund transfers, is deducted from total general funds' expenditures. The cash associated with this appropriation is also not included in FY17 revenues.
2 Department of Healthcare and Family Services' FY18 appropriation does not include the $494 million supplemental needed to cover underfunded FY18 liabilities.
3 FY18 pension values represent the re-certified values for the fiscal year. Current enacted appropriations are less than these re-certified values, but continuing appropriations will cover any excess re-certified values. FY19 pension values represent certified values net of savings from the proposed normal cost shift. See FY19 Budget Book Chapter 5: Public Retirement Systems for further detail

FY 2019 Projected Revenue

- These are projected revenues in the current budget proposal, not yet enacted and subject to change
- The State's three largest revenue sources, individual income tax, corporate income tax and state sales tax are estimated to total $28.3 billion, a net increase of approximately $816 million, or 3.0%, when compared to FY18 estimates
- General Funds revenues are projected to be $38 billion
- Net individual income and corporate income taxes are projected to rise by 3% and 6% respectively
- Net sales taxes are projected at $8.1 billion, a 2% increase
- Income and Sales Tax amounts are net of $1.6 billion deposit into Local Government Distributive, Public Transportation and Downstate Public Transportation Funds
- Transfers In are projected to increase by 2.6%
- Federal sources are estimated to increase by approximately $336 million.
- “All Other Sources” in FY19 includes projected revenues of $300 million from the divestment of the James R. Thompson Center
- Fund reallocations and interfund borrowings totaling $600 million are estimated for FY19

General Fund Revenue Projections Update

($ millions)	Estimated FY 2018	Projected FY 2019	% Change	$ Change
RESOURCES				
State Sources: Revenues				
Net Individual Income Taxes	17,610	18,153	3.1%	544
Net Corporate Income Taxes	1,884	1,998	6.1%	114
Net Sales Taxes	7,951	8,110	2.0%	159
Public Utility Taxes	890	868	(2.5%)	(22)
All Other Sources	2,438	2,719	11.5%	280
Total State Sources: Revenues	**30,773**	**31,848**	**3.5%**	**1,075**
State Sources: Transfers In				
Lottery	719	733	2.0%	14
Riverboat Gaming	270	263	(2.6%)	(7)
Other Transfers	729	766	5.2%	38
Total Transfers In	**1,717**	**1,762**	**2.6%**	**45**
Total State Sources	**32,490**	**33,610**	**3.4%**	**1,120**
Federal Sources	3,418	3,754	9.8%	336
SUBTOTAL, RESOURCES	**35,908**	**37,364**	**4.1%**	**1,456**
Interfund Borrowing and Fund Reallocations	875	600	(31.4%)	(275)
TOTAL RESOURCES	**36,783**	**37,964**	**3.2%**	**1,181**

Deliberative Work Product

FY 2019 Projected Expenditures

- Total projected expenditures of $37.6 billion
- Elementary and Secondary education appropriations projected to increase $330 million
- Transfers out to other State funds projected to decrease $209 million to a total of $3.2 billion
- Total Operating Budget increase of 1.3%, compared to 9.6% from 2017 to 2018
- Healthcare spending projected to increase 10.6% over FY18 but 2/3rds of this increase is due to FY18 appropriation levels being underfunded by $494 million. Overall, base program growth is less than 1% year over year.

STATE OF ILLINOIS GENERAL FUNDS FINANCIAL WALK DOWN			
General Fund Projections Expenses Update			
($ millions)	Estimated FY 2018	Projected FY 2019	% Change
EXPENDITURES			
1. Education	**9,716**	**10,272**	**5.7%**
K-12 Education	7,983	8,313	4.1%
Higher Education	1,733	1,959	13.1%
2. Economic Development	**79**	**60**	**(24.2%)**
3. Public Safety	**1,759**	**1,729**	**(1.7%)**
4. Human Services	**6,073**	**5,781**	**(4.8%)**
5. Healthcare [1]	**7,119**	**7,875**	**10.6%**
6. Environment and Culture	**57**	**55**	**(2.8%)**
7. Government Services	**3,189**	**2,319**	**(27.3%)**
Group Health Insurance	1,858	1,450	(22.0%)
Government Services	1,331	869	(34.7%)
8. Pensions [2]	**7,002**	**7,212**	**3.0%**
K-12 Education Pensions	4,095	4,204	2.7%
State Universities' Pensions	1,414	1,414	0.0%
State Employees' Pensions	1,493	1,593	6.7%
9. Unspent Appropriations	**(1,012)**	**(872)**	**(13.8%)**
Total Operating Budget	**33,981**	**34,430**	**1.3%**
Statutory Transfers Out	586	396	(32.4%)
Debt Service: Capital and Pension Bond	2,280	2,005	(12.1%)
Debt Service: Backlog Borrowing	527	782	48.5%
Total Additional Expenditures	**3,392**	**3,183**	**(26.8%)**

1 Department of Healthcare and Family Services' FY18 appropriation does not include the $494 million supplemental needed to cover underfunded FY18 liabilities.
2 FY18 pension values represent the re-certified values for the fiscal year. Current enacted appropriations are less than these re-certified values, but continuing appropriations will cover any excess re-certified values. FY19 pension values represent certified values net of savings from the proposed normal cost shift. See FY19 Budget Book Chapter 5: Public Retirement Systems for further detail

General Funds Balances and Projections

- By reforming structural costs, Illinois can balance its budget
- The proposed FY19 budget projects a budgetary surplus of $351 million
- These surplus revenues will be earmarked to address the backlog of accounts payable
- The state has paid down $4.7 billion in Medicaid bills. $2.5 billion of the proceeds from the bill backlog bond sale were used to pay FY17 bills. The resulting federal match of $1.2 billion was used to pay down FY18 bills, these continuous payments of Medicaid bills generated an additional $1.0 billion of federal revenue, resulting in a total of $2.2 billion in federal revenues initiated by the bond sale.
- A $1.1 billion general funds supplemental appropriation has been requested for FY18 to cover unfunded FY17 liabilities.

($ millions)	Actual FY 2017	Estimated FY 2018	Projected FY 2019	2017v2018 $ Change	2018v2019 $ Change
RESOURCES	**26,308**	**30,773**	**31,848**	**4,465**	**1,075**
State Sources: Transfers In	**1,542**	**1,717**	**1,762**	**175**	**45**
Federal Sources	2,483	3,418	3,754	935	336
SUBTOTAL, RESOURCES	**30,333**	**35,908**	**37,364**	**5,575**	**1,456**
Interfund Borrowing and Fund Reallocations	-	875	600	875	(275)
TOTAL RESOURCES	**30,333**	**36,783**	**37,964**	**6,450**	**1,181**
EXPENDITURES	**31,016**	**33,981**	**34,430**	**2,965**	**450**
Total Additional Expenditures	**4,636**	**3,392**	**3,183**	**(1,243)**	**(209)**
TOTAL EXPENDITURES	**35,651**	**37,373**	**37,613**	**1,722**	**240**
Comptroller Budgetary Basis Adjustments	176	-	-	(176)	-
General Funds Surplus/(Deficit)	(5,142)	(590)	351	4,552	941
FY 2017 Carryover Need (Additional Appropriations)	**-**	**(1,091)**	**-**	**-**	**-**
Backlog Borrowing Proceeds[1]	**-**	**2,500**	**-**	**-**	**-**
Federal Revenue Due to Medicaid Backlog Payments	**-**	**1,206**	**-**	**-**	**-**
Decrease Individual Income Tax Rate by 0.25 Percent	**-**	**-**	**(917)**	**-**	**-**
Pension Reform Savings: Consideration Model	**-**	**-**	**900**	**-**	**-**
Adjusted General Funds Surplus/(Deficit)	(5,142)	2,025	334	4,552	941

This table reflects the revised definition of the general funds to include the Budget Stabilization Fund, the Fund for the Advancement of Education and the Commitment to Human

1 Approximately $3,982 million of the November 2017 backlog borrowing proceeds were deposited into the Health Insurance Reserve Fund.

FY 2019 Budget Initiatives and Spending Plan

	Initiative	FY19 Estimated General Funds Savings	Key Highlights
Aligning pension responsibility	**Teachers' (TRS) pension reform**	$262M	• $262M for first year 25% normal cost shift to districts
	Universities' (SURS) pension reform	$101M	• $101M for first year 25% normal cost shift to system members, **offset with increased FY19 discretionary funds**
	Chicago Teacher's Pension Fund	$163M	• Represents 100% normal cost shift
Aligning Group Health Insurance responsibility	**Remove Group Health Insurance from collective bargaining**	$470M	• $470M in general funds; $90M in other funds
	Aligning Group Health Insurance costs with universities	$105M	• Cost shift to the universities, **offset with increased FY19 discretionary funds**
	Discontinue retired teachers, Chicago Teacher's, and community college retirement subsidy	$194M	• $65M for Chicago Teacher's health insurance • $4.4M for retired community college employees • Teachers' Retirement Insurance Program savings of $125M
	Estimated FY19 savings	**$1,295M**	

3. Pensions

End of FY 2017 Pension Status

Overview of State Retirement Systems for FY17 -

- Actuarial Assets as of June 30, 2017 were $85.6 billion and the Asset Market Value was $85.4 billion
- The State Retirement Systems, in aggregate, were funded at 39.9% as of FY17 based on the asset smoothing method and 39.8% using asset market value; individual percentages for each fund vary
- FY17 investment returns were approximately 10.5% - 12.5%, which were above actuarial assumptions

Pension Status (Continued)

- Recertified FY18 State contributions to the retirement systems projected to total $7.9 billion[1]

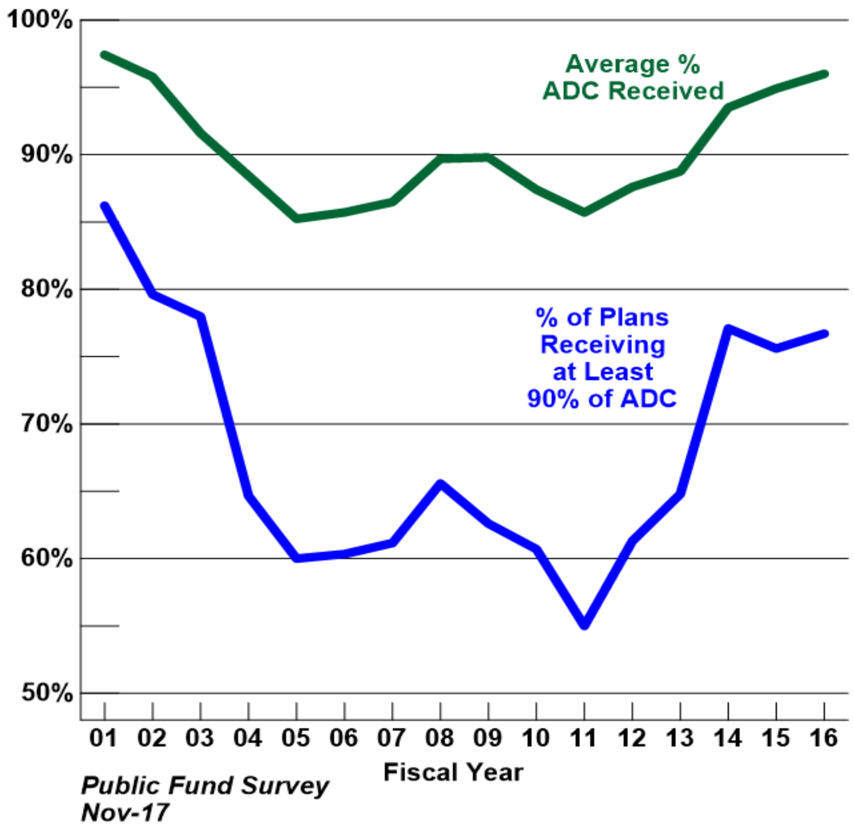
History of Employer Contributions for SURS, TRS, and SERS($mm)

Fiscal Year	ADC Per GASB Amount[2]	Amount Contributed	Percentage Contributed
2008	$3,643.4	$2,102.4	58%
2009	$3,986.9	$2,828.1	71%
2010	$4,662.5	$4,041.9	87%
2011	$5,291.2	$4,225.2	80%
2012	$6,488.1	$4,935.8	76%
2013	$6,872.6	$5,791.5	84%
2014	$7,609.3	$6,797.1	89%
2015	$7,787.6	$6,854.5	88%
2016	$8,413.3	$7,353.8	87%
2017	$10,243.2	$7,583.5	74%

Source: Annual Actuarial valuations of the Retirement Systems as of June 30, 2016. Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2017.

Note: 1. This includes General Revenue Funds and Other State Funds 2. TRS revised ADC calculation for 2017 which led to a $1.6B increase for their annual contribution

% of Plans Receiving at Least 90% of ADC



Source: NASRA Public Fund Survey, November 2017

Deliberative Work Product

Pension Assumptions

- All systems have switched to using generational mortality tables (MP-2014 two dimensional)
- All systems but SURS review their assumptions each year. SURS reviews every three years (the last review was March 2018)

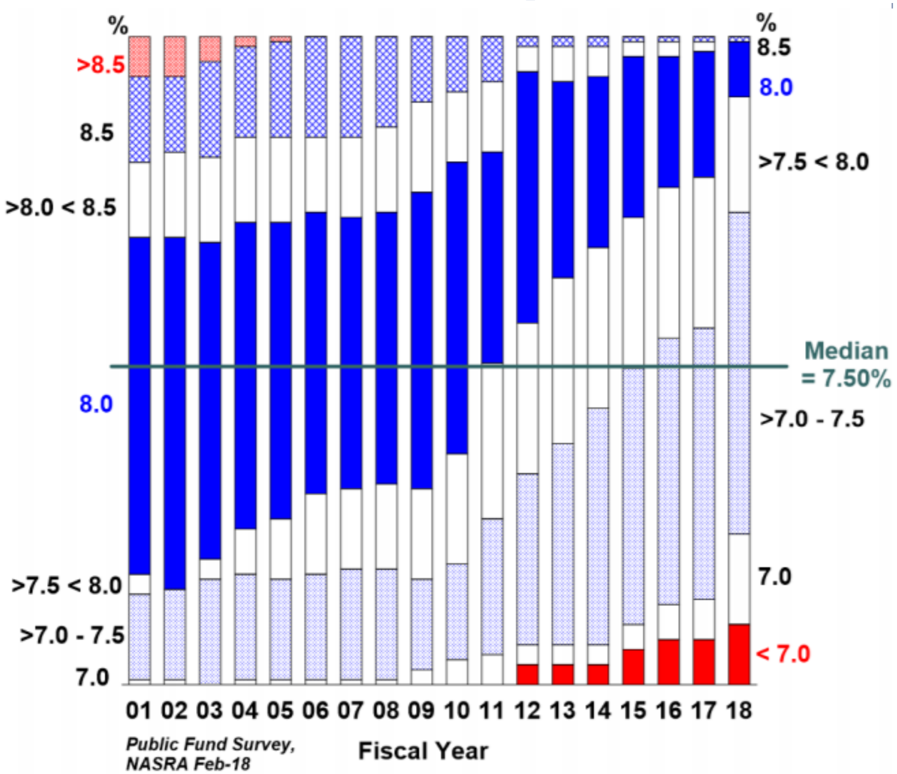
Investment Rate of Return Assumptions Used by the Retirement Systems

	2009	2017
TRS	8.50%	7.00%
SURS	8.50%	7.25%[1]
SERS	8.50%	7.00%
GARS	8.00%	6.75%
JRS	8.00%	6.75%

2017 Investment Rate of Return Assumptions Illinois Versus National Average

Illinois Average	6.95%
National Average	7.37%

Change in Distribution of Public Pension Investment Return Assumptions, FY 2001-2018



Source: Comprehensive Annual Financial Reports, Fiscal Year 2016; NASRA Issue Brief: Public Pension Plan Investment Return Assumptions, November 2017, Average of NASRA state investment return assumptions

Note: 1. SURS Board revised its investment assumption to 6.75% on March 9, 2018, the change will impact FY2020 contributions

Pension Update

Governor's FY19 budget includes several reform proposals to align responsibility and control long term costs -

TRS normal cost shift - FY19 budget proposes TRS educational institutions (school districts) to gradually assume responsibility for the normal cost of their members over the next 4 years

- Brings Illinois in line with many other states that require districts to contribute to pension costs with estimated first year savings to be $262M for FY19
- Policy previously proposed by Democratic leaders speaker Madigan and Senate President John Cullerton

Chicago Teacher's Pension Fund normal cost shift – the FY 19 budget also proposes to shift the full $163M normal cost for Chicago Teacher's Pension Fund, returning to the historic arrangement

SURS normal cost shift - FY19 budget proposes SURS educational institutions (universities / colleges) to gradually assume responsibility for the normal cost of their members over 4 years

- Similar to TRS proposal above - requires institutions to gradually assume normal costs for its members over the next 4 years with estimated first year savings to be $100M for FY19

Consideration proposal for SERS, TRS, and SURS systems -

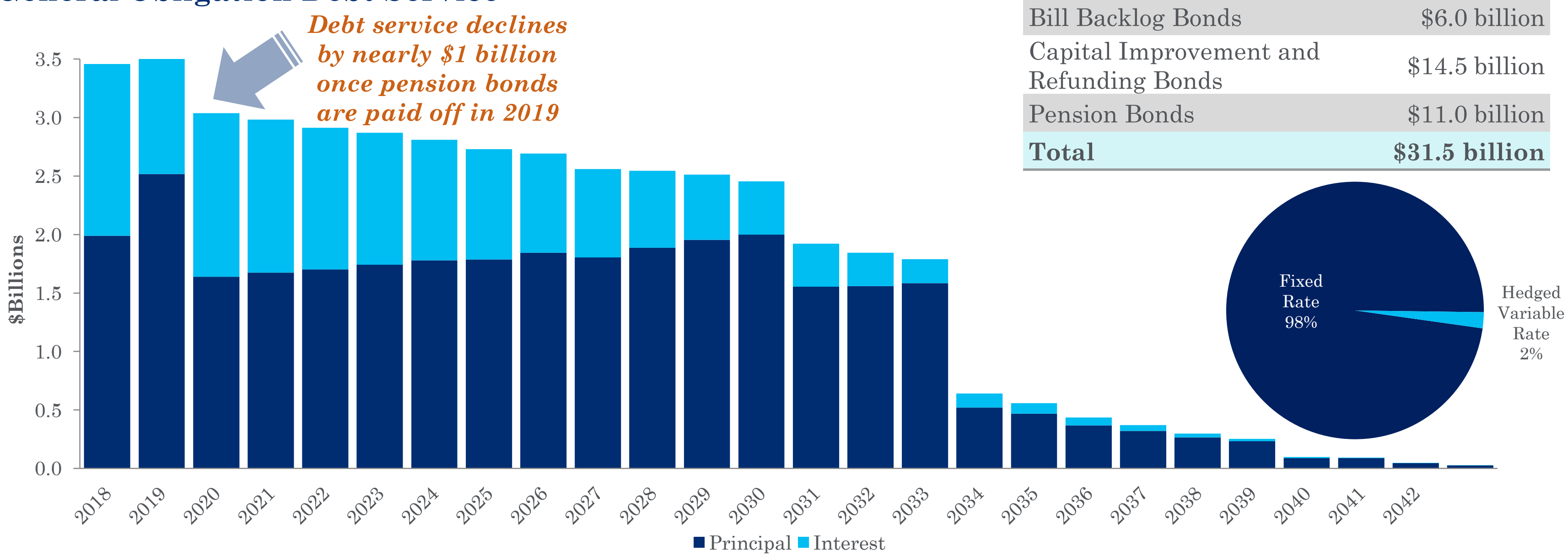
- For TRS and SURS systems - The Governor continues to support reforms passed by the Senate using the "consideration" model that would reduce the cost of Tier 1 benefits
- For SERS - Governor's consideration proposal proposes to take several items out of collective bargaining and offers employees transition packages for additional benefits in exchange for certain Tier 1 benefits
- The FY 19 budget is balanced *independent of* these reforms. Only the 0.25% proposed tax cut is contingent on passage and implementation of the Governor's Consideration proposals.

4. Debt Overview

General Obligation Bond Overview

- General Obligation bonds are backed by the full faith and credit of the State
- There is a continuing appropriation in place to ensure bond repayment without action by the General Assembly
- GOBRI is a separate fund in the Treasury that is dedicated to the payment of debt service on GO bonds and short-term debt
- Segregation of funds for debt service begins 12 months in advance for principal payments and 6 months in advance for interest payments
- ***Average life of all outstanding GO Bonds is approximately nine years***

General Obligation Debt Service[1]



Current Par Outstanding	
Bill Backlog Bonds	$6.0 billion
Capital Improvement and Refunding Bonds	$14.5 billion
Pension Bonds	$11.0 billion
Total	**$31.5 billion**

1. As of March, 2018

Strength of the State's GO Pledge

- Monies are transferred monthly to the GOBRI Fund and, by law, are used for the payment of GO Bonds issued under the Bond Act and for the payment of Short-Term Debt
- The Bond Act constitutes an irrevocable and continuing authority for and direction to the Treasurer and Comptroller to make the necessary transfers to the GOBRI Fund
  - The State can draw from all State funds in the State Treasury that are not restricted by law to another use if needed to pay debt service on GO bonds
- Approximately $2.8 billion in transfers from General Funds to GOBRI are estimated for FY18 with the balance expected to come from other State funds
  - In FY18, the State transfers will average approximately $234 million a month from General Funds to GOBRI after the issuance of the Bonds
  - General Funds State Source Revenues available to make General Revenue Fund debt service average approximately $2.5 billion per month on average and provide approximately 11x coverage on the amount required to be transferred into GOBRI each month for General Funds share of debt service, after the issuance of the Bonds
- As of March 1, 2018, $1.026 billion was available in GOBRI

Fiscal Year All Fund Cash Balances[1]

Transfers to the GOBRI Fund ($Millions)[2]

	2013	2014	2015	2016	2017	2018 Est.
General Revenue Fund						
Capital Bonds	$ 549	$ 603	$ 592	$ 557	$626	$701
Pension Bonds	1,555	1,655	1,502	1,423	1,609	1,579
Section 7.6 Bonds						527
GRF subtotal	**2,103**	**2,258**	**2,094**	**1,979**	**2,235**	**2,806**
Road Fund	359	359	347	334	305	349
School Infrastructure Fund	210	209	193	212	115	165
Capital Projects Fund	310	344	388	533	477	416
TOTAL	**$2,982**	**$3,170**	**$3,021**	**$3,057**	**$3,133**	**3,736**

1. Does not include Federal Trust Funds. Includes GOBRI. June 30, 2016 balance show an increase from FY 2015 due in part to the late enactment of FY 2016 appropriations for many State funds.
2. Does not include debt service transfers on short-term debt as may have been from time to time outstanding

The State Has Actively Managed Its Debt Obligations

Interest Rate Swap Agreements

- In 2003, the State executed five separate interest rate exchange agreements to hedge the variable rate of all $600 million of the Series 2003B Bonds at an effective fixed rate. The State pays a fixed interest rate of 3.89% and receives variable rates as shown below
- In 2017, the State negotiated with the counterparties to change the agreements to have terms more favorable to the State, including lowering the ratings triggers on all of its swaps

Interest Rate Exchange Agreements

Swap Counterparty	Current Aggregate Notional Amount	Fixed Rate Paid	Variable Rate Received	Additional Termination Event Against Illinois	Mark-to-Market as of 3/1/2018
Barclays Bank PLC[1]	$54,000,000	3.89%	82.7% of 1M LIBOR	Below Ba1 or BB+	$(6,657,031)
Barclays Bank PLC[2]	54,000,000	3.89%	80.82% of 1M LIBOR	Below Ba1 or BB+	(6,853,937)
Bank of America, N.A.	54,000,000	3.89%	SIFMA[3]	Below Ba1 or BB+	(7,567,228)
JP Morgan Chase Bank, N.A.	54,000,000	3.89%	SIFMA[3]	Below Ba1 or BB+	(7,614,028)
Deutsche Bank AG	384,000,000	3.89%	SIFMA[3]	Below Ba1 or BB+	(55,748,304)
Total	**$600,000,000**				**$(84,440,527)**

Variable Rate Bonds

- The Series October 2003B Bonds were purchased on November 7, 2016 by four banks. The direct placements had a term of two years and will expire on November 7, 2018.
- The current agreements trigger an increase in rates in the event of a downgrade, but no acceleration

Series 2003B Bonds

Owner	Principal Amount	Interest Rate Mode	Sub-series
DNT Asset Trust[5]	$226,000,000	LIBOR	2003B-1
PNC Bank, National Association	224,000,000	LIBOR	2003B-2
State Street Public Lending Corporation[6]	75,000,000	LIBOR	2003B-3
RBC Municipal Products, LLC[7]	75,000,000	SIFMA	2003B-4
Total	**$600,000,000**		

1. Transaction was novated from AIG Financial Products to Barclays Bank on August 23, 2016. As part of the novation, the LIBOR barrier option was removed 2. Transaction was novated from Merrill Lynch Capital Services to Barclays Bank on September 12, 2016. As part of the novation, the LIBOR barrier option was removed. 3. The variable rate received is 67% of 1 month LIBOR when 1 month LIBOR is ≥ 2.5%, or SIFMA, when 1 month LIBOR is < 2.5%. 4. Calculated at maximum rate 5. An affiliate of JPMorgan Chase Bank, National Association 6. An Affiliate of State Street Bank and Trust Company 7. An Affiliate of Royal Bank of Canada.

Security for Illinois General Obligation Bonds

Security	• The full faith and credit of the State is pledged for the punctual payment of principal and interest under the General Obligation Bond Act (the "Bond Act") of the State – The State can draw from all State funds in the State Treasury that are not restricted by law to another use if needed to pay debt service on GO bonds
Statutorily Mandated Debt Service Set Asides (GOBRI)	• Under the Bond Act, monthly transfers are made from various State funds to the General Obligation Bond Retirement and Interest Fund (GOBRI), in amounts sufficient to pay the next interest and principal payments when due, which effectively results in the State transferring 1/12th of the next principal payment and 1/6th of the next interest payment every month – GOBRI is a separate fund in the Treasury that is dedicated to the payment of debt service on GO bonds and short-term debt
Appropriation of Funds	• The Bond Act requires the Governor to include an appropriation in each annual budget of monies in an amount necessary to pay all principal and interest due and further requires the General Assembly to make appropriations annually to pay debt service on outstanding GO Bonds from GOBRI • In the absence of appropriations, the Bond Act itself constitutes an irrevocable and continuing appropriation of all amounts necessary to pay principal and interest • Principal and interest on all outstanding GO Bonds must be paid even in the absence of a State budget
Additional Protection under Illinois Constitution and State Laws	• The Bond Act explicitly provides bondholders the remedy to sue the State to compel payment of GO bonds • The provisions of the Bond Act, pledging the full faith and credit of the State to GO bonds issued thereunder, are by their terms irrepealable to any outstanding GO bonds • The Illinois Constitution contains a "non-impairment" clause that prohibits action by the General Assembly that would, under contract law, impair the obligations of a contract between the State and its bondholders

5. Plan of Finance

Capital Projects & IT Bonds - Issuance Terms and Schedule

Financing Overview	
Use of Proceeds	The Bonds are being issued to provide funds to finance capital projects under the State's capital program, information technology and to pay costs of issuance of the Bonds.
Security	The Bonds are direct, general obligations of the State and, pursuant to Section 9(a) of Article IX of the Illinois Constitution and the General Obligation Bond Act of the State of Illinois, as amended (the "Bond Act"), the full faith and credit of the State is pledged for the punctual payment of interest on all bonds issued under the Bond Act, including the Bonds, as it comes due and for the punctual payment of the principal of all bonds issued under the Bond Act, including the Bonds, at maturity, or on any earlier redemption date, and redemption premium, if any. These provisions are irrepealable until all bonds issued under the Bond Act, including the Bonds, are paid in full as to both principal and interest.
Interest Payment Dates	May 1 and November 1, commencing November 1, 2018
Mode	Fixed Rate Bonds
Ratings	Received week of April 2nd
Pricing*	April 25th
Closing*	May 9th

Amortization*		
May 1	**Series A**	**Series B**
2019	$18,000,000	$5,000,000
2020	18,000,000	5,000,000
2021	18,000,000	5,000,000
2022	18,000,000	5,000,000
2023	18,000,000	5,000,000
2024	18,000,000	5,000,000
2025	18,000,000	5,000,000
2026	18,000,000	5,000,000
2027	18,000,000	5,000,000
2028	18,000,000	5,000,000
2029	18,000,000	-
2030	18,000,000	-
2031	18,000,000	-
2032	18,000,000	-
2033	18,000,000	-
2034	18,000,000	-
2035	18,000,000	-
2036	18,000,000	-
2037	18,000,000	-
2038	18,000,000	-
2039	18,000,000	-
2040	18,000,000	-
2041	18,000,000	-
2042	18,000,000	-
2043	18,000,000	-
Total	**$450,000,000**	**$50,000,000**

*Preliminary, subject to change.