

# State of Illinois

**Investor Presentation – Competitive Offering**
**General Obligation Bonds, Series of May 2018**
**April 13, 2018**

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Link[1] to the Preliminary Official Statement ("POS"): [http://munios.com/e/3CY3J]. This investor presentation does not constitute a part of the POS.

1. Link expires on April 25, 2018

# Presentation Participants

**State of Illinois**
**Governor's Office of Management and Budget**

Hans Zigmund, *Director*

Kelly Hutchinson, *Director of Capital Markets*

Jim Foys, *Chief of Staff*

Robert Steere, *General Counsel*

Charlie Weikel, *Deputy Director*

**Co-Bond Counsel**

Chapman and Cutler LLP

Pugh, Jones, & Johnson, P.C.

**Financial Advisors**

pfm

Adela Cepeda, *Managing Director*

Alford Evans, *Director*

# State of Illinois Management Team

### Hanz Zigmund, Director

- Appointed Director of GOMB in January 2018
- Prior to his current position, Hans served as Director of Economic Policy in the Governor's Office
- Served for 4 years as Chief Economist at the Department of Revenue; and for 2 years as Associate Director of GOMB
- Prior to joining GOMB, he was an Economist at the Department of Revenue for 5 years
- Taught economics, statistics and public finance at Roosevelt University where he also earned his Masters degree in economics

### Jim Foys, Chief of Staff

- Appointed Chief of Staff for GOMB in December 2017
- Almost 20 years of state government experience
- Worked at GOMB for 2 years, where he served as Deputy Director of the Healthcare, Transportation and Regulatory agencies
- Worked on the Illinois Senate Republican Staff for 16 years, where he served as Senate Staff Analyst and Deputy Director of Appropriations

### Kelly Hutchinson, Director of Capital Markets

- Appointed Director of Capital Markets in November 2015
- Responsible for day-to-day operations of Illinois' debt program
- Formerly a Director at a nationally ranked financial advisory firm
- Almost 20 years of Capital Markets experience in Public Finance and Corporate Finance, including investment banking

### Robert Steere, General Counsel

- 13 years of state government experience
- Appointed to GOMB as General Counsel in October 2017
- Past State positions include: Counsel to Governor James R. Thompson, General Counsel to the Bureau of the Budget, General Counsel and Assistant Director of the Department of Revenue, and Inspector General for State Treasurer Judy Baar Topinka

### Charlie Weikel, Deputy Director

- Appointed to GOMB as a Deputy Director in November 2017
- Responsible for matters involving public pensions, Medicaid, transportation and capital development programs
- Previously worked at the Office of the Governor for 3 years as Deputy Director covering a variety of policy matters including pension policy and agency operations.
- Prior to his service in Illinois government, worked as a Management Consultant in Chicago

# Transaction Overview

**The State is selling the $500 million Series of May 2018 A & B Bonds on a competitive basis**

| General Obligation Bonds, Series of May 2018AB | |
|---|---|
| **Estimated Size** | Series A: 450,000,000<br>Series B: 50,000,000 |
| **Method of Sale** | Competitive |
| **Use of Proceeds** | The Series 2018A Bonds are being issued to provide funds to finance capital projects under the State's capital program and to pay costs of issuance of the Series 2018A Bonds. The Series 2018B Bonds are being issued to finance information technology projects and to pay costs of issuance of the Series 2018B Bonds. |
| **Tax Status** | Federally Tax-Exempt, State of Illinois Taxable |
| **Coupon** | Fixed Rate |
| **Amortization** | Level Principal for both series beginning May 1, 2019, bidders have the option to designate and aggregate one or more maturities of a series of the Bonds as term bonds, as more fully described in the Official Notice of Bond Sale and the Official Bid Form |
| **Interest Payment Dates** | May 1 and November 1, commencing November 1, 2018 |
| **Redemption Features** | 10-Year Par Call (Series A), Non call (Series B) |
| **Security and Repayment Source** | Direct, full faith and credit general obligations of the State pursuant to the General Obligation Bond Act (the "Bond Act"). The provisions of the Bond Act are irrepealable until all bonds issued under the Bond Act, including the Bonds, are paid in full as to both principal and interest |
| **Ratings (Moody's/ S&P /Fitch)** | Baa3 (Negative) / BBB- (Stable) / BBB (Negative) |
| **Sale Date** | April 25, 2018 |
| **Closing Date** | May 9, 2018 |
| **Financial Advisor** | PFM Financial Advisors LLC |

| Preliminary Amortization | | |
|---|---|---|
| **Maturity (May 1st)** | **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** |

# 1. Illinois' Strong and Diverse Economy

# The State's Credit Fundamentals are Improving

- 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 received upon payment of Medicaid bills
- By the end of FY18, the State estimates the bill backlog will be approximately $7.7 billion, or just above the bill backlog average from December 2010 to fiscal year end 2015 of $7.1 billion

## Recent Developments

- ✓ Passage of FY18 Budget
- ✓ Increased projected revenues
- ✓ Passage of legislation that 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

## Inherent Credit Strengths

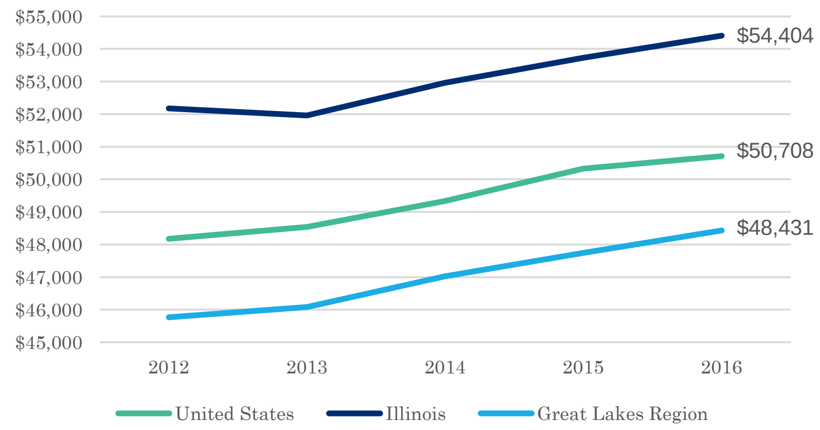
- ✓ Sovereign State with significant revenue flexibility
- ✓ Illinois' economy is the $5^{th}$ largest in the United States and $19^{th}$ largest worldwide[1]
- ✓ The Bond Act constitutes an irrevocable continuing appropriation for all debt service payments on GO Bonds
- ✓ After FY19 pension bonds debt service declines by approx. $1 billion, providing significant financial flexibility

Note: Amounts related to the plan of finance and bill backlog are estimates
1. Source: US Department of Commerce Bureau of Economic Analysis for the Illinois ranking. IMF and World Bank for the international ranking

# Illinois is the Economic Core of the Midwest and Continues to Grow

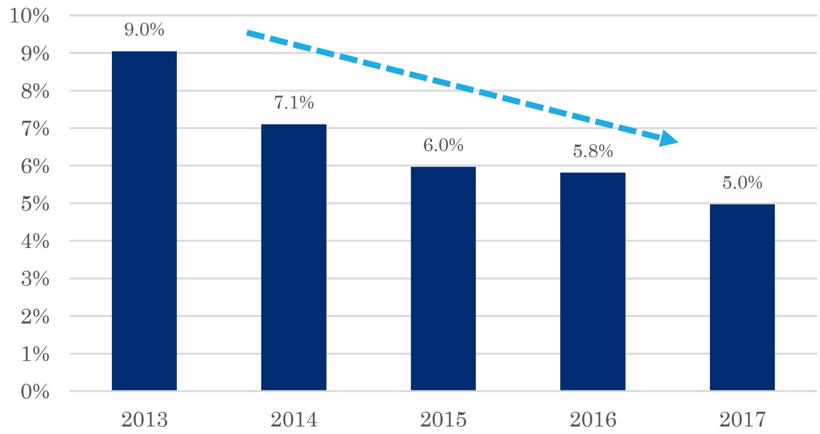
## Upward Trend in Illinois Real GDP Per Capita[1]

*Illinois outperforms the U.S. and Great Lakes Region in terms of Real GDP*



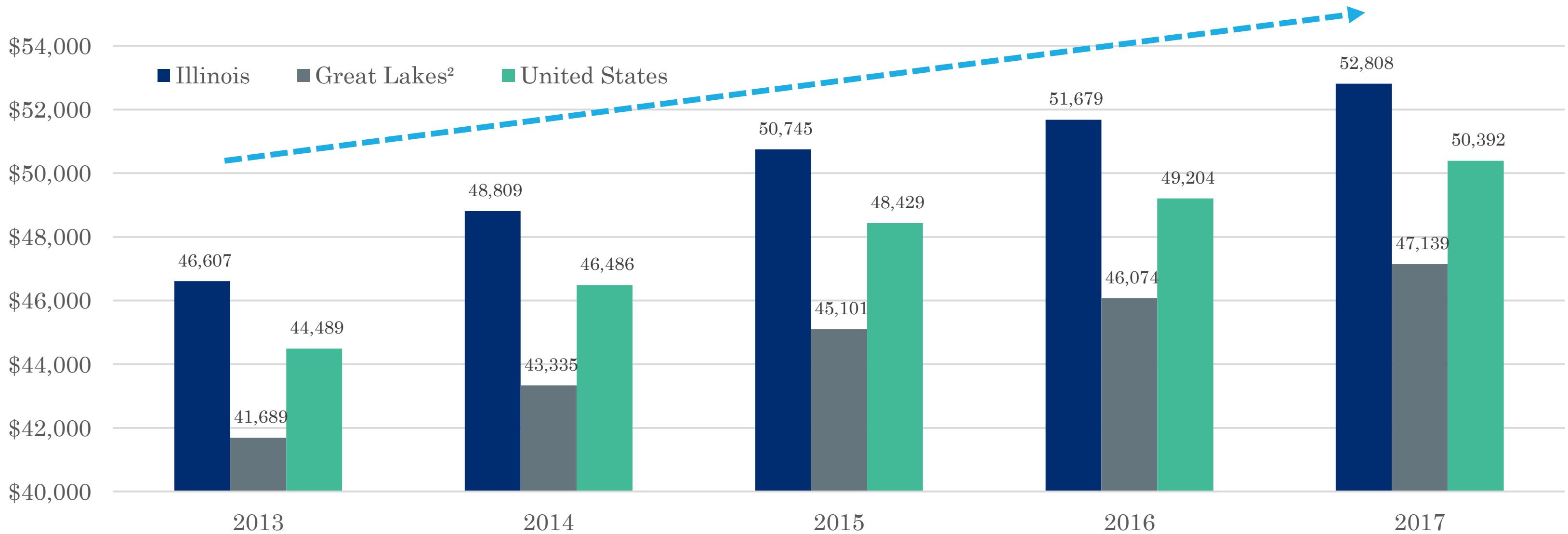

## Illinois Unemployment Continues to Decline

*Unemployment approximates national levels*




## Per Capita Personal Income

*Illinois' Per Capita Income is ranked 3rd among the 10 most populous states and 15th among all states*




Source: U.S. Department of Commerce, U.S. Census Bureau; Bureau of Economic Analysis

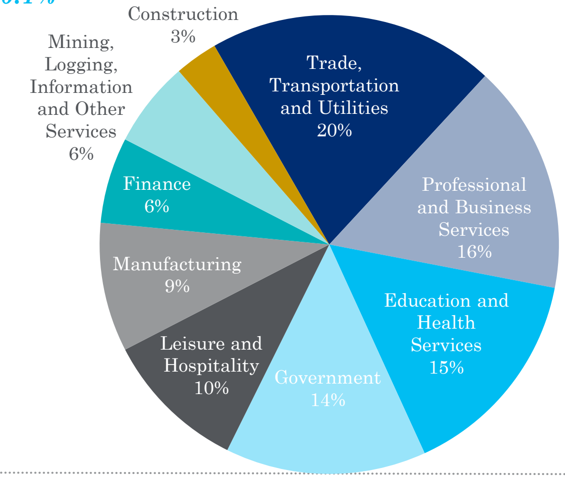
1. 2009 Chained Dollars
2. Great Lakes Per Capita Personal Income consists of Illinois, Wisconsin, Ohio, Michigan and Indiana

# Illinois' Economic Growth is Driven by a Large, Highly Educated Population and Diverse Employment Mix

- Illinois is the 6th most populous state in the nation and its highly educated population has fueled the region's growing and diversified economy
- Illinois' economy is the 5th largest in the United States and 19th largest worldwide
- The State is home to two of the country's busiest airports and is a major hub for rail, trucking and waterway transportation networks

### Illinois Non-Farm Employment by Industry

*Broad employment base with no industry accounting for more than 20.1%*




### Select Illinois-Headquartered Fortune 500 Companies

*36 Fortune 500 companies are headquartered in Illinois; only New York, California, and Texas have more*

Source: Bureau of Labor Statistics; Fortune; US Department of Commerce Bureau of Economic Analysis; IMF; World Bank

# 2. 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 from specific funds to the General Revenue Fund, Budget Stabilization Fund, and Healthcare Provider Relief Fund or the Health Insurance Reserve Fund, to enable the Comptroller to 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] As described in the Illinois State Operating Budget Fiscal Year 2019 on page 37: https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY%202019/Fiscal-Year-2019-Operating-Budget-Book.pdf

# FY 2018 Estimated General Fund 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 $8.0 billion
- An estimated $1.6 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

| *($ millions)* | Actual FY 2017 | Estimated FY 2018 | % Change | $ Change |
|---|---|---|---|---|
| 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) |
| **Total Income and Sales Taxes** | **23,036** | **27,445** | **19.1%** | **4,409** |
| Other State Revenues and Transfers | 3,272 | 3,328 | 1.7% | 56 |
| 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) along with the Common School Fund, General Revenue-Common School Special Account Fund, Education Assistance Fund, and General Revenue Fund in the definition of General Funds. The FY17 revenue actuals in this table reflect the new definition.

# Estimated Spending for FY 2018

- 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 and health insurance)
- The general fund pension contributions will increase by $51 million
- Statutory transfers out are projected to decline by $1.8 billion, primarily reflecting the switch to direct deposit of local government revenue sharing
- 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 approximately $4 billion from the backlog borrowing effectively covered those liabilities
- 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
- A $1.1 billion general funds supplemental appropriation has been requested for FY18 to cover unfunded FY17 liabilities

**General Funds Expenses Estimate**

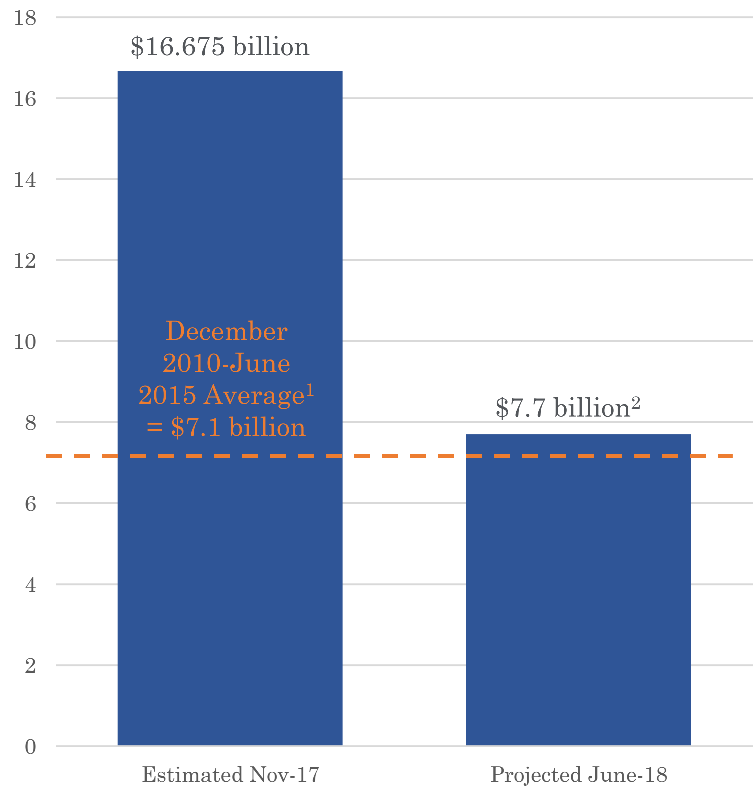
| *($ millions)* | Actual FY 2017 | Estimated FY 2018 | % Change | $ Change |
|---|---|---|---|---|
| Operating Budget (from Appropriations) | 31,017 | 33,982 | 9.6% | 2,965 |
| GO Bond Debt Service Transfers | 2,235 | 2,807 | 25.6% | 572 |
| Other Statutory Transfers | 2,400 | 586 | (75.6%) | (1,814) |
| **TOTAL EXPENDITURES** | **35,652** | **37,375** | **4.8%** | **1,723** |
| Comptroller Budgetary Basis Adjustments | 176 | - | | (176) |
| **General Funds Surplus/(Deficit)** | **(5,142)** | **(590)** | | **4,552** |
| FY 2017 Carryover Need (Additional Appropriations) | - | (1,091) | | (1,091) |
| Backlog Borrowing Proceeds [1] | - | 2,500 | | 2,500 |
| Federal Revenue Due to Medicaid Backlog Payments | - | 1,206 | | 1,206 |
| **Adjusted General Funds Surplus/(Deficit)** | **(5,142)** | **2,025** | | **7,167** |

1 $3,982 million of the November 2017 backlog borrowing proceeds were deposited into the Health Insurance Reserve Fund and $2,500 million deposited into the General Revenue Fund.

# Update on Accounts Payable Backlog

- The General Funds total of budget basis accounts payable, Section 25 Liabilities and income tax refunds outstanding at June 30, 2018 is estimated to total $9.5 billion
- The proceeds of the November 2017ABCD Bonds were used to pay a portion of the backlog of bills.
- The Comptroller transferred $2.5 billion to the General Revenue Fund and approximately $4.0 billion to the Health Insurance Reserve Fund
- The State estimates that the backlog of bills as of June 30, 2018 will be approximately $7.7 billion, slightly larger than the average estimated bill backlog between December 2010 and June 2015 of $7.1 billion

**Estimated Bill Backlog ($billions)**




| End of Fiscal Year General Funds Accounts Payable ($millions) | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| General Funds Budget Basis Accounts Payable[3] | $4,142 | $4,005 | $3,521 | $3,789 | $9,061 |
| General Funds Section 25 Liabilities[4] | 1,864 | 1,622 | 1,598 | 3,307 | 5,932 |
| **Total General Funds Accounts Payables** | **6,006** | **5,627** | **5,119** | **7,096** | **14,993** |
| Section 25 Liabilities - Other State Funds | 489 | 429 | 316 | 956 | 162 |

Table Source: Illinois Office of the Comptroller data. 1. Takes into account Comptroller estimates from December 31 and June 30 of each year when calculating the average. 2. GOMB estimates. 3. This amount includes General Funds Lapse Period Transactions as reported in the TBFR. 4. Section 25 Liabilities are incurred in one fiscal year and payable from future fiscal year appropriations. This amount is the General Funds portion of Section 25 liabilities.

# FY19 Budget Proposal Overview

- The State's three largest revenue sources, individual income tax, corporate income tax and sales tax are estimated to total $28.3 billion in FY19. Other sources for the General Funds are expected to total $9.6 billion in FY19. This number reflects the receipt of $300 million from the anticipated divestiture of the James R. Thompson Center
- The FY19 State resources estimate assumes deposits of $1.6 billion into the Local Government Distributive Fund, Public Transportation Fund and Downstate Public Transportation Funds from income and sales tax receipts prior to the deposit of these revenue sources into the General Funds
- In FY19, Transfers In and Federal Sources are expected to bring $1.8 billion and $3.8 billion to the State sources, respectively. Interfund Borrowing and Funds Reallocations are projected to add an additional $600 million to the State's Total Resources, contributing to a 3.2% increase from FY18
- The FY19 projected surplus of $351 million will be earmarked to address the backlog of accounts payable. This surplus does not take into account the undetermined cost of wage increases for AFSCME State workers, retroactive to July 1, 2015, which may exceed $300 million

| General Funds Projections | | | | |
|---|---|---|---|---|
| *($ millions)* | **Estimated FY 2018** | **Projected FY 2019** | **% Change** | **$ Change** |
| **Total Income and Sales Taxes** | **27,445** | **28,261** | **3.0%** | **816** |
| Other State Revenue and Transfers | 3,328 | 3,587 | 7.8% | 259 |
| Transfers In | 1,717 | 1,762 | 2.6% | 45 |
| Federal Sources | 3,418 | 3,754 | 9.8% | 336 |
| **Subtotal, Resources** | **35,908** | **37,364** | **4.1%** | **1,457** |
| Interfund Borrowing and Fund Reallocations | 875 | 600 | (31.4%) | (275) |
| **Total Resources** | **36,783** | **37,964** | **3.2%** | **1,182** |
| **Total Expenditures** | **37,373** | **37,613** | **0.6%** | **240** |
| **General Funds Surplus/(Deficit)** | **(590)** | **351** | | **941** |

# 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 |
| | Chicago Teacher's Pension Fund | $163M | • Represents 100% normal cost shift |
| Aligning Group Health Insurance responsibility | Reform Group Health Insurance programs | $470M | • $470M in general funds; |
| | Aligning Group Health Insurance costs with universities | $105M | • Cost shift to the universities |
| | Discontinue retired teachers, Chicago Teacher's, and community college retirement subsidy | $194M | • $65M for Chicago Teacher's health insurance<br>• $4.4M for retired community college employees<br>• Teachers' Retirement Insurance Program savings of $125M |
| | **Estimated FY19 savings** | **$1,295M** | |

# 3. Pensions

# Pension Overview

- Actuarial Assets as of FY 2017 for the 5 systems combined are $85.6 billion and the Fair Market Value of Assets is $85.4 billion.
- The State Retirement Systems, in aggregate, were funded at 39.9% as of FY 2017 based on the asset smoothing method and 39.8% using fair market value; individual percentages for each fund vary
- FY17 investment returns were in excess of 10%, above actuarial assumptions
- FY 2018 State contributions to the retirement systems totaled $7.9 billion[1]

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

| Fiscal Year | Amount Contributed[1] | ADC Per GASB[2] | Percentage Contributed |
|---|---|---|---|
| 2014 | 6,797.1 | 7,609.3 | 89% |
| 2015 | 6,854.5 | 7,787.0 | 88% |
| 2016 | 7,353.8 | 8,413.3 | 87% |
| 2017 | 7,583.5 | 10,243.4 | 74% |

**Investment Rate of Return Assumptions Used by the Retirement Systems**

| | 2009 | 2017 |
|---|---|---|
| TRS | 8.50% | 7.00% |
| SURS | 8.50% | 7.25%[3] |
| SERS | 8.50% | 7.00% |
| GARS | 8.00% | 6.75% |
| JRS | 8.00% | 6.75% |

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

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

# Pension Update

**Incorporated into the Governor's FY19 budget proposal is a reform initiative that realigns the responsibility to pay for the annual normal cost of employees' pensions to the school districts, community colleges and state universities that employ them. Responsibility is shifted gradually over 4 years.**

- House Speaker Madigan and Senate President Cullerton have previously supported similar cost shift policies

**TRS normal cost shift** - FY19 budget includes a proposal requiring school districts to assume responsibility for the payment to TRS of the normal cost of pensions for their employees in 25% increments over 4 years, starting in FY19

- First year savings in FY19 is estimated to be $262M based on 25% cost shift

**SURS normal cost shift** - FY19 budget includes a proposal requiring state universities and community colleges to assume responsibility for the payment to SURS of the normal cost of pensions for their employees in 25% increments over 4 years

- Similar to TRS proposal above, requiring institutions to gradually assume normal costs for pensions over 4 years
- First year savings in FY19 is estimated to be $100M based on 25% cost shift

**Chicago Teacher's Pension Fund normal cost shift** - FY19 budget also proposes to shift the full $163M normal cost for Chicago Teacher's Pension Fund, returning to the historic arrangement

- FY18 is the first fiscal year in which the State had statutory responsibility for this payment

**Presented with the Governor's FY19 budget is a reform initiative commonly referred to as the "consideration model," which is intended to reduce long-term pension costs by offering Tier 1 employees an option to give up a portion of their longer-term annuity benefits in return for nearer-term financial benefits.**

**Consideration proposal for SERS, TRS, and SURS systems** - For these retirement systems, the Governor supports a "consideration model" initiative that would reduce the long-term cost of benefits payable to Tier 1 employees by offering nearer-term financial benefits to those who opt to give up a portion of their longer-term Tier 1 annuity benefits.

- The FY19 budget is balanced *independent of* these reforms; this initiative need not be enacted to balance the budget
- The proposed 0.25% income tax rate cut is contingent upon implementation of the "consideration model" initiative

# 4. Debt Overview and Plan of Finance

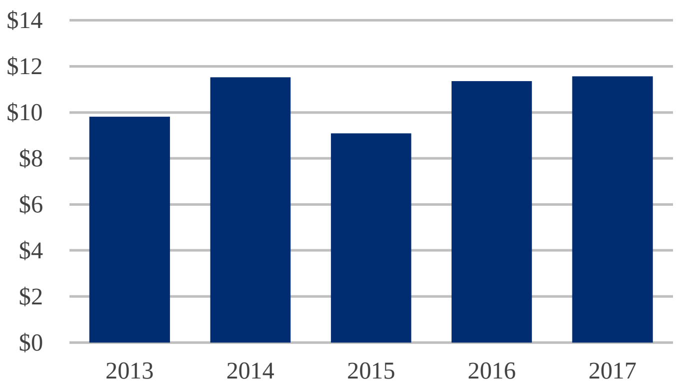
# Security for Illinois General Obligation Bonds

| | |
|---|---|
| **Security** | • The full faith and credit of the State is pledged for the punctual payment of principal and interest under the Bond Act<br>– 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<br>• GOBRI is a separate fund in the Treasury that can be applied to debt service payable on GO bonds and short-term debt |
| **Continuing 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<br>• In the absence of appropriations, the Bond Act itself constitutes an irrevocable and continuing appropriation of all amounts necessary to pay principal and interest<br>• 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<br>• 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 until all outstanding GO bonds issued under the Bond Act are paid in full as to both principal and interest<br>• 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 |

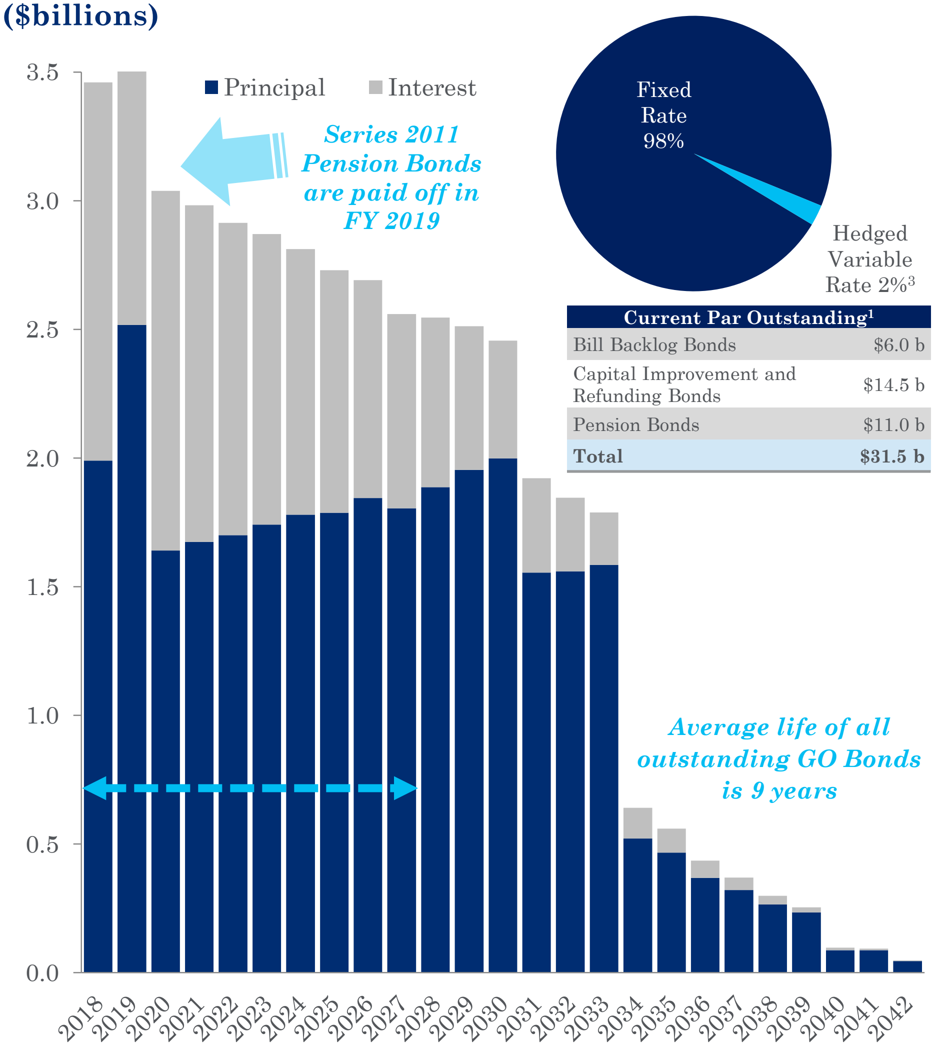
# General Obligation Bond Overview

- The State transfers from General Funds to GOBRI in FY 2018 will average approximately $234 million a month following the issuance of the Bonds
  - General Funds State Source Revenues available to make General Revenue Fund debt service total approximately $2.5 billion per month on average providing 11x debt service coverage
- Transfers to the GOBRI fund were $3.133 billion in FY 2017
  - The cash balance in the GOBRI Fund was $1.026 billion as of March 1, 2018
  - Approximately $2.8 billion in transfers from General Funds to GOBRI are estimated for FY 2018 with the balance expected to come from other State funds
- As of FYE 2017, the State's total cash balance was $11.567 billion

### Fiscal Year All Fund Cash Balances ($billions)[2]




### General Obligation Debt Service (as of March 2018) ($billions)




| Current Par Outstanding[1] | |
|---|---|
| Bill Backlog Bonds | $6.0 b |
| Capital Improvement and Refunding Bonds | $14.5 b |
| Pension Bonds | $11.0 b |
| **Total** | **$31.5 b** |

Source: Illinois Office of the Comptroller and the Governor's Office of Management and Budget. 1. Includes all par amounts paid or payable during Fiscal Year 2018. 2. Does not include Federal Trust Funds. Includes GOBRI. June 30, 2016 balances show an increase from FY 2015 due in part to the late enactment of FY 2016 appropriations for many State funds. 3. Rating-based unwind triggers on hedges all modified to sub-investment grade rating levels of below "BB+" by S&P or "Ba1" by Moody's

# Transaction Overview

**The State is selling the $500 million Series of May 2018 A & B Bonds on a competitive basis**

| General Obligation Bonds, Series of May 2018AB | |
|---|---|
| **Estimated Size** | Series A: 450,000,000<br>Series B: 50,000,000 |
| **Method of Sale** | Competitive |
| **Use of Proceeds** | The Series 2018A Bonds are being issued to provide funds to finance capital projects under the State's capital program and to pay costs of issuance of the Series A Bonds. The Series 2018B Bonds are being issued to finance information technology projects and to pay costs of issuance of the Series B Bonds |
| **Tax Status** | Federally Tax-Exempt, State of Illinois Taxable |
| **Coupon** | Fixed Rate |
| **Amortization** | Level Principal for each series beginning May 1, 2019, bidders have the option to designate and aggregate one or more maturities of a series of the Bonds as term bonds, as more fully described in the Official Notice of Bond Sale and the Official Bid Form |
| **Interest Payment Dates** | May 1 and November 1, commencing November 1, 2018 |
| **Redemption Features** | 10-Year Par Call (Series A), Non-Call (Series B) |
| **Security and Repayment Source** | Direct, full faith and credit general obligations of the State pursuant to the Bond Act. The provisions of the Bond Act are irrepealable until all bonds issued under the Bond Act, including the Bonds, are paid in full as to both principal and interest |
| **Ratings (Moody's/ S&P/ Fitch)** | Baa3 (Negative) / BBB- (Stable) / BBB (Negative) |
| **Sale Date** | April 25, 2018 |
| **Closing Date** | May 9, 2018 |
| **Financial Advisor** | PFM Financial Advisors LLC |

| Preliminary Amortization | | |
|---|---|---|
| **Maturity (May 1st)** | **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** |

# 5. Timeline and Contacts

# Tentative Transaction Timeline and Contacts

| Date* | Event* |
|---|---|
| April 16th | Available for One-On-One Calls |
| April 23rd | Available for One-On-One Calls |
| April 25th | Series of May 2018AB Competitive Sale |
| May 9th | Closing |

| April 2018 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | Th | F | S |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | | | | | |

| May 2018 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | Th | F | S |
| | | 1 | 2 | 3 | 4 | 5 |
| 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| 20 | 21 | 22 | 23 | 24 | 25 | 26 |
| 27 | 28 | 29 | 30 | 31 | | |

## State of Illinois


| Governor's Office of Management and Budget |
|---|
| Kelly Hutchinson |
| Director of Capital Markets |
| kelly.hutchinson@illinois.gov |
| (312) 814-0023 |


## Financial Advisors


| PFM Financial Advisors | |
|---|---|
| Adela Cepeda | Alford Evans |
| Managing Director | Director |
| cepedaa@pfm.com | evansal@pfm.com |
| (312) 523-2425 | (312) 523-2435 |


*Preliminary, subject to change