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

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

$1,303,145,000
STATE OF ILLINOIS
General Obligation Refunding Bonds,
Series of October 2016

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 refunding bonds, to be issued as General Obligation Refunding Bonds, Series of October 2016 (the "Bonds"). The Bonds will be issued only as fully registered book-entry bonds in denominations of $5,000 or any integral multiple of that amount. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, and held under DTC's global book-entry system. The Bonds will mature on the dates, in the principal amounts, bear interest at the rates per annum and have the prices, yields and CUSIP numbers as shown on the inside cover of this Official Statement. Interest on the Bonds will be payable on February 1 and August 1 of each year, commencing on February 1, 2017.

The Bonds are subject to redemption prior to maturity as set forth herein.

The Bonds are direct, general obligations of the State, secured by a pledge of its full faith and credit. The Bonds are issued under the General Obligation Bond Act of the State of Illinois, as amended, to refund certain general obligation bonds of the State and to pay costs of issuance of the Bonds.

The scheduled payment of principal of and interest on the Bonds maturing on February 1 in the years 2030 through 2032, inclusive (collectively, 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" herein.

The Bonds are offered when, as and if issued by the State and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Chapman and Cutler LLP, Chicago, Illinois, and the Hardwick Law Firm, LLC, Chicago, Illinois, Co-Bond Counsel, and certain other conditions. Chapman and Cutler LLP, Chicago, Illinois, will also act as Disclosure Counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, Dinsmore & Shohl LLP, Chicago, Illinois. It is expected that beneficial interests in the Bonds will be available for delivery through the facilities of DTC on or about November 2, 2016.

BOFA MERRILL LYNCH **JEFFERIES**

LOOP CAPITAL MARKETS **PNC CAPITAL MARKETS LLC** **RAMIREZ & CO., INC.**

ACADEMY SECURITIES **CABRERA CAPITAL MARKETS, LLC** **IFS SECURITIES, INC.** **RAYMOND JAMES** **STERN BROTHERS & CO.**

Dated: October 13, 2016

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

$1,303,145,000 General Obligation Refunding Bonds, Series of October 2016

Due February 1	Principal Amount	Interest Rate	Yield	Price	CUSIP*
2018	$ 92,510,000	5.000%	2.340%	103.247	452152F71
2019	98,105,000	5.000%	2.520%	105.381	452152F89
2020	108,240,000	5.000%	2.740%	106.971	452152F97
2021	75,650,000	5.000%	2.910%	108.288	452152G21
2022	85,900,000	5.000%	3.100%	109.131	452152G39
2023	70,040,000	5.000%	3.250%	109.817	452152G47
2024	65,755,000	5.000%	3.380%	110.331	452152G54
2025	96,125,000	5.000%	3.510%	110.584	452152G62
2026	109,280,000	5.000%	3.630%	110.674	452152G70
2027	142,775,000	5.000%	3.740%	110.638	452152G88
2028	132,305,000	5.000%	3.860%	109.567†	452152G96
2029	88,340,000	5.000%	3.970%	108.596†	452152H20
2030‡	75,495,000	4.000%	4.050%	99.486	452152H38
2031‡	39,815,000	4.000%	4.070%	99.243	452152H46
2032‡	22,810,000	4.000%	4.090%	98.981	452152H53

---

* CUSIP is a registered trademark of American Bankers Association. CUSIP data in this Official Statement are provided by CUSIP Global Services LLC, managed on behalf of the American Bankers Association by S&P Capital IQ, a part of McGraw-Hill Financial, Inc. 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 may be 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 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.

† Priced to the February 1, 2027 first optional redemption date.

‡ Insured by a municipal bond insurance policy to be issued by Assured Guaranty Municipal Corp.

STATE OF ILLINOIS

$1,303,145,000
State of Illinois
General Obligation Refunding Bonds,
Series of October 2016

Bruce Rauner
Governor

Tim Nuding
Director of the Governor's Office of Management and Budget

Alexis Sturm
Deputy Director for Debt, Capital and Revenue

Kelly Hutchinson
Director of Capital Markets

[THIS PAGE INTENTIONALLY LEFT BLANK]

PREFACE

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

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

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

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

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 I – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.

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

FORWARD-LOOKING STATEMENTS

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

WEBSITE INDEX

APPENDIX F—WEBSITE INDEX contains a list of the websites referenced in this Official Statement. Except as otherwise provided herein, 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. The State takes no responsibility for any information contained on such websites unrelated to the statements made in this Official Statement or for revisions to information on such websites occurring after the date of this Official Statement. State employees or officers may from time to time make statements or post information to such websites that are constitutionally protected political speech. Such statements are not intended to constitute communication to the investor community concerning the securities or the financial condition of the State. The State disseminates and discloses certain information, including material updates to the State’s bond disclosures, through EMMA (as defined herein). None of the websites listed in APPENDIX F—WEBSITE INDEX 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUMMARY OF TERMS OF THE BONDS

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

The Issue	$1,303,145,000 State of Illinois General Obligation Refunding Bonds, Series of October 2016 (the "Bonds"). The Bonds will be dated the date of delivery, with delivery anticipated on or about November 2, 2016.
The Issuer	State of Illinois (the "State").
Interest	Payable semi-annually on February 1 and August 1, commencing February 1, 2017. Payment of the installments of interest will be made to the registered owners of the Bonds as shown on the bond register at the close of business on the 15th day of the calendar month immediately preceding the interest payment date.
Form of Bonds; Denominations; Book-Entry System	The Bonds will be issued as fully registered book-entry bonds in denominations of $5,000 or any integral multiple of that amount. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be held under DTC's global book-entry system.
Use of Proceeds	The Bonds are being issued to refund all or a portion of certain maturities of outstanding general obligation bonds of the State and to pay costs of issuance of the Bonds. See "REFUNDING PLAN."
Optional Redemption	The Bonds maturing on or after February 1, 2028 are subject to redemption prior to maturity, at the option of the State on any date on or after February 1, 2027, in whole or in part, and if in part from such maturities as shall be selected by the State, less than all of the Bonds of a single maturity to be selected as described under "THE OFFERING—REDEMPTION–*Redemption Procedure,"* in integral multiples of $5,000, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption. See "THE OFFERING—REDEMPTION –*Optional Redemption*."

Security for the Bonds; Provisions for Payment Are Irrepealable

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. See "SECURITY."

The Bond Act creates a separate fund in the State Treasury called the "General Obligation Bond Retirement and Interest Fund" (the "GOBRI Fund") to be used for repayment of all bonds issued under the Bond Act. On or before the last day of each month, the Bond Act requires the Illinois State Treasurer (the "Treasurer") and the Illinois State Comptroller (the "Comptroller") to transfer from the General Revenue Fund and, in the case of bonds issued under Section 4(a) of the Bond Act (or bonds issued to refund such bonds), the Road Fund, to the GOBRI Fund an amount sufficient to pay the aggregate amount of principal of, interest on and redemption premium, if any, on all bonds issued under the Bond Act payable on the next payment date, divided by the number of full calendar months between the date of such bonds and the first such payment date, and thereafter, divided by the number of months between each succeeding payment date after the first payment date. Historical fund transfers to the GOBRI Fund are further detailed under "SECURITY—STATE FUNDING PAYMENTS."

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

Irrevocable and Continuing Appropriation

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

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

The Bond Act itself constitutes an irrevocable and continuing appropriation of all amounts necessary to pay the principal of, interest on and redemption premium, if any, on outstanding bonds issued under the Bond Act, and the irrevocable and continuing authority for and direction to the 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. See "SECURITY."

Tax Treatment of Interest

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

Bond Insurance

The scheduled payment of principal of and interest on the Bonds maturing on February 1 in the years 2030 through 2032, inclusive (collectively, the "Insured Bonds"), when due will be guaranteed under an insurance policy (the "Policy") to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Municipal Corp. ("AGM"). See "BOND INSURANCE" and APPENDIX I – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.

Ratings	Moody's Investors Service, Inc. ("Moody's") has assigned a rating of "Baa2" with a Negative Outlook to the Bonds, Fitch Ratings Inc. has assigned a rating of "BBB+" to the Bonds with a Negative Rating Watch and S&P Global Ratings ("S&P") has assigned a rating of "BBB" with a Negative Outlook to the Bonds. Moody's and S&P are expected to assign ratings of "A2" (Stable Outlook) and "AA" (Stable Outlook), respectively, to the Insured Bonds, contingent upon the issuance of the Policy by AGM at the time of the delivery of the Insured Bonds. See "RATINGS."
Miscellaneous	Additional information regarding the Bonds and this Official Statement is available by contacting the Governor's Office of Management and Budget, 100 West Randolph Street, Suite 15-100, Chicago, Illinois 60601; telephone: (312) 814-0023.

TABLE OF CONTENTS

INDEX TO TABLES

$1,303,145,000
State of Illinois
General Obligation Refunding Bonds
Series of October 2016

INTRODUCTION

This Introduction contains only a brief summary of certain terms of the Bonds being offered and a brief description of this Official Statement. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Illinois Constitution and laws of the State of Illinois and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions thereof.

The purpose of this Official Statement (which includes the cover page and the Appendices) is to set forth certain information concerning the State of Illinois (the "State") and the State's $1,303,145,000 General Obligation Refunding Bonds, Series of October 2016 (the "Bonds"). The Bonds are being issued to provide funds to refund all or a portion of certain maturities of outstanding general obligation bonds of the State and to pay costs of issuance of the Bonds, as more completely described under "REFUNDING PLAN." 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 the State's jurisdiction. See "STATE OF ILLINOIS."

The State has diversified economic strengths. The State has a population of over 12 million of which approximately six million participate in the work force. Chicago is Illinois' largest city and is the largest city in the Midwest. Chicago is home to many Fortune 500 companies and is also the only city in North America where all six Class 1 intercontinental railroads meet to interchange freight. O'Hare International Airport is one of the nation's busiest airports maintaining direct flights to national and worldwide destinations, making it a key passenger and freight handling facility. See "STATE OF ILLINOIS," "STATE FINANCIAL INFORMATION" and APPENDIX A—CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS for sources and information regarding the State.

SECURITY

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

TAX TREATMENT OF INTEREST

In the separate opinions of Chapman and Cutler LLP, Chicago, Illinois, and the Hardwick Law Firm, LLC, Chicago, Illinois (collectively, both firms are referred to herein as "Co-Bond Counsel") to be delivered upon the issuance of the Bonds, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Interest on the Bonds is not exempt from present State of Illinois income taxes. See "TAX MATTERS" for a more complete discussion.

WEBSITE INDEX

APPENDIX F—WEBSITE INDEX contains a list of the websites referenced in this Official Statement. Except as otherwise provided herein, 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.

AUTHORITY FOR ISSUANCE

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. See "STATE OF ILLINOIS—CONSTITUTIONAL PROVISIONS–*Constitutional Provisions Relating to Long-Term Borrowing*." The Bond Act, which has been approved by the requisite three-fifths vote of each house of the General Assembly, authorizes the issuance of multiple capital and special purpose GO Bonds in the aggregate amount of $31,624,577,443, excluding GO refunding bonds and $17,562,348,300 of GO Bonds for pension funding purposes. The Bonds constitute refunding bonds under the Bond Act.

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 respective principal amounts of GO Bonds outstanding and GO refunding bonds outstanding, giving effect to the issuance of the Bonds and the refunding of the Refunded Bonds (as hereinafter defined), are set forth in Table 6. See "GENERAL OBLIGATION INDEBTEDNESS—OUTSTANDING GENERAL OBLIGATION BONDS–*Table 6–General Obligation Bond Authorization*."

Although the Bond Act places certain restrictions on the issuance of GO Bonds, Public Act 99-0523 suspended some of these restrictions for GO Bonds issued for refunding purposes in Fiscal Year 2017. Under Public Act 99-0523, the requirements that at least 25% of the refunding GO Bonds issued within a fiscal year must be sold pursuant to notice of sale and public bid, and that GO Bonds must be issued with principal or mandatory redemption amounts in equal par amounts in each fiscal year beginning the year following issuance, with the first maturity issued occurring within the fiscal year in which the GO Bonds are issued or within the next succeeding fiscal year, do not apply to refunding GO Bonds issued in Fiscal Year 2017. Also under Public Act 99-0523 the requirement that 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" (consisting of the General Revenue Fund, the Common School Fund, the General Revenue–Common School Special Account Fund and the Education Assistance Fund) and Road Fund appropriations for the fiscal year immediately prior to the fiscal year of the issuance, does not apply to GO Bonds issued for refunding purposes in an aggregate principal amount of $2 billion in Fiscal Year 2017. The Bonds are the first GO Bonds to be issued for refunding purposes in Fiscal Year 2017.

Debt service payments on all outstanding GO Bonds and on short-term certificates (issued as described under "STATE OF ILLINOIS—CONSTITUTIONAL PROVISIONS–*Constitutional Provisions Relating to Short-Term Borrowing*," and "GENERAL OBLIGATION INDEBTEDNESS—SHORT TERM DEBT"), are made from a separate fund in the State Treasury called the "General Obligation Bond Retirement and Interest Fund" (the "GOBRI Fund"). For additional information, see "SECURITY–STATE FUNDING PAYMENTS."

2016 AND 2017 BUDGET OVERVIEW

Neither the full Fiscal Year 2016 General Funds Budget nor the full Fiscal Year 2017 General Funds Budget has been enacted. However, in Fiscal Years 2016 and 2017 certain appropriations were enacted and certain spending is occurring through statutory transfers, statutory continuing appropriations, court orders and consent decrees.

Debt service payments for GO Bonds are covered by statutory continuing appropriations, and the Treasurer has continued to pay all Fiscal Year 2016 and Fiscal Year 2017 bond debt service payments as required by the Bond Act. Fiscal Year 2017 appropriations for debt service payments from GOBRI were included in Public Act 99-0524, but the continuing appropriation authorization will address shortfalls, if any. Statutory transfers to the GOBRI Fund from the various funds in the State Treasury have occurred in Fiscal Year 2016 and thus far in Fiscal Year 2017, and will continue to occur, as required by statute. As of August 31, 2016, the balance in the GOBRI Fund totaled $1,137 million. See "STATE FINANCIAL INFORMATION—AUTHORIZATION FOR EXPENDITURES," "—REVIEW OF FISCAL YEAR 2016 BUDGET PERFORMANCE—*Fiscal Year 2016 Spending in Absence of a Budget"* and "—FISCAL YEAR 2017 BUDGET SITUATION—*Fiscal Year 2017 Spending in Absence of a Budget.*"

BOND INSURANCE

The scheduled payment of principal of and interest on the Bonds maturing on February 1 in the years 2030, 2031 and 2032 (collectively, the "Insured Bonds"), when due will be guaranteed under an insurance policy (the "Policy") to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Municipal Corp. ("AGM"). See "BOND INSURANCE" and APPENDIX I – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.

THE OFFERING

DESCRIPTION OF BONDS

The Bonds will bear interest from their issue date and will mature as shown on the inside cover of this Official Statement. Interest on the Bonds is payable semiannually on February 1 and August 1 of each year, beginning on February 1, 2017, at the rates per annum specified on the inside cover of this Official Statement. Payment of the installments of interest will be made to the registered owners of the Bonds as shown on the bond register at the close of business on the record date, which is the 15th day of the calendar month immediately preceding the interest payment date.

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

REDEMPTION

Optional Redemption

The Bonds maturing on or after February 1, 2028 are subject to redemption prior to maturity at the option of the State on any date on or after February 1, 2027, in whole or in part, and if in part, from such maturities as shall be selected by the State, less than all of the Bonds of a single maturity to be selected as described under "*–Redemption Procedure*" below, in integral multiples of $5,000, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest on the Bonds to be redeemed to the redemption date.

Redemption Procedure

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

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

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

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

REFUNDING PLAN

Proceeds of the Bonds will be used to refund all or a portion of certain maturities of outstanding general obligation bonds of the State and to pay the cost of issuance of the Bonds. APPENDIX H sets forth the series designation, maturity date, interest rate, principal amount and CUSIP number for each maturity of GO Bonds to be refunded with proceeds of the Bonds (the "Refunded Bonds"). All of the Refunded Bonds will be redeemed on December 2, 2016 (the "Redemption Date") at a redemption price of par plus accrued interest to the Redemption Date (the "Redemption Price").

In order to provide for the refunding of the Refunded Bonds, certain proceeds of the Bonds will be used to purchase United States Treasury Obligations (the "Government Securities"), the principal of which together with the interest to be earned thereon and a beginning cash deposit will be sufficient (i) to pay when due the interest on the Refunded Bonds to their Redemption Date, and (ii) to redeem the Refunded Bonds on the Redemption Date at the Redemption Price.

The Government Securities will be held in an escrow account (the "Escrow Account") created pursuant to an Escrow Agreement (the "Escrow Agreement"), between the State and Amalgamated Bank of Chicago, Chicago, Illinois (the "Escrow Agent").

All moneys and Government Securities deposited for the payment of the Refunded Bonds, including interest thereon, are required to be applied solely and irrevocably to the payment of the Refunded Bonds. Neither the maturing principal of the Government Securities nor the interest to be earned thereon will serve as security or be available for the payment of the principal of, premium, if any, and interest on the Bonds.

The Escrow Agent will have no claim against or lien on such moneys and Government Securities for any fees or expenses incurred by the Escrow Agent under the Escrow Agreement.

As provided in the Bond Act, following the deposit of the Government Securities into the Escrow Account, the liability of the State upon the Refunded Bonds will continue, but the holders of the Refunded Bonds are entitled to payment only out of the moneys on deposit in the Escrow Account.

The mathematical accuracy of computations made by the hereinafter defined Underwriters demonstrating the adequacy of the deposit into the Escrow Account to pay the interest and redemption price of the Refunded Bonds will be verified by Robert Thomas CPA, LLC, Shawnee Mission, Kansas, independent certified public accountants (the "Verification Agent"), at the time the Bonds are issued and delivered. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

APPLICATION OF BOND PROCEEDS

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

SOURCES:	AMOUNTS
Principal Amount Issued	$1,303,145,000.00
Net Premium	99,966,886.70
TOTAL SOURCES	$1,403,111,886.70
USES:	
Deposit to Escrow Account	$1,392,723,485.50
Underwriters' Discount	4,925,732.29
Costs of Issuance*	5,462,668.91
TOTAL USES	$1,403,111,886.70

* Includes cost of insurance premium for the Policy, which will be paid by the Underwriters.

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, AGM will issue the Policy for 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 APPENDIX I to this Official Statement.

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 its shareholders or affiliates, other than 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 S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (Stable Outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") 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 July 27, 2016, S&P issued a credit rating report in which it affirmed AGM's financial strength rating of "AA" (Stable Outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On August 8, 2016, Moody's published a credit opinion affirming its existing insurance financial strength rating of "A2" (Stable Outlook) on AGM. AGM can give no assurance as to any further ratings action that Moody's may take.

On December 10, 2015, KBRA issued a financial guaranty surveillance report in which it affirmed AGM's insurance financial strength rating of "AA+" (Stable Outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

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, 2015.

Capitalization of AGM

At June 30, 2016, AGM's policyholders' surplus and contingency reserves were approximately $3,841 million and its net unearned premium reserve was approximately $1,459 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents 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, 2015 (filed by AGL with the SEC on February 26, 2016);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 (filed by AGL with the SEC on May 5, 2016); and

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016 (filed by AGL with the SEC on August 4, 2016).

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 (the "1934 Act"), excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Insured 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.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

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 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."

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 section of the Bond Act making such pledge is irrepealable until all GO Bonds issued under the Bond Act, including the Bonds, have been paid in full.

Tables 1 reflects the cash available (subject to certain restrictions as to use) from time to time in various State funds to support debt service on GO Bonds.

TABLE 1
CASH BALANCES BY FUND CATEGORY
AS OF END OF FISCAL YEARS 2012–2016[1]
($ in millions)

FUND CATEGORY	FY2012	FY2013	FY2014	FY2015	FY 2016[4]
General Funds	$ 40	$ 154	$ 74	$ 621	$ 246
Highway Funds	1,111	1,172	1,345	1,423	1,684
Special State Funds	2,918	3,671	3,341	2,845	4,068
Bond Financed Funds	1,460	856	2,676	552	799
Debt Service Funds[2]	1,322	1,508	1,638	1,232	1,346
Revolving Funds	70	99	78	94	175
State Trust Funds	2,307	2,350	2,373	2,316	3,037
June 30th amounts (End of Fiscal Year)[3]	**$9,228**	**$9,810**	**$11,524**	**$9,084**	**$11,353**

Source: Illinois Office of the Comptroller and the Governor's Office of Management and Budget.

1 Does not include Federal Trust Funds.

2 Includes the General Obligation Bond Retirement and Interest Fund.

3 Totals may not add due to rounding.

4 June 30, 2016 cash balances show an increase from the end of Fiscal Year 2015 due in part to the late enactment of Fiscal Year 2016 appropriations for many State funds. Cash balances in these categories totaled $9,849 million as of August 31, 2016.

In order to pay its General Funds obligations, including without limitation, principal and interest on its GO Bonds, the State currently imposes various taxes and fees. See APPENDIX A—CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS—"PART IV–Tax Review."

STATE FUNDING PAYMENTS

The provisions of the Bond Act described below are irrepealable until all GO Bonds issued under the Bond Act are paid in full as to both principal and interest.

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 GO Bonds falling due during such period. The Bond Act also creates the GOBRI Fund, which is a separate fund in the State Treasury to be used for such repayment.

The Bond Act requires the General Assembly to make appropriations annually to pay the principal of, interest on and premium, if any, on outstanding GO Bonds issued under the Bond Act from the GOBRI Fund. 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, or 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 GO Bonds issued to refund GO Bonds issued for such purposes) in the Road Fund, to make transfers to the GOBRI Fund as required by the Bond Act, 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.

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 the 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 following statutory transfers to the GOBRI Fund will also be made in amounts determined using the same formula, as follows: (i) pursuant to the Bond Act, transfers from the Road Fund to the GOBRI Fund for GO Bonds issued under Section 4(a) of the Bond Act (or GO Bonds issued to refund such GO Bonds); (ii) pursuant to the State Finance Act and the Bond Act, transfers from the School Infrastructure Fund and the General Revenue Fund to the GOBRI Fund for GO Bonds issued for the construction of school improvements under the School Construction Law of the State as authorized by Section 5(e) and Section 5(f) of the Bond Act for school improvement projects (or GO Bonds issued to refund such GO Bonds); and (iii) pursuant to the State Finance Act and the Bond Act, transfers from the Capital Projects Fund and the General Revenue Fund to the GOBRI Fund for GO Bonds issued pursuant to the bonding authorization under the 2009 capital program (or GO Bonds issued to refund such GO Bonds).

This transfer of moneys is not required if moneys in the GOBRI Fund are more than the amount otherwise to be transferred as described above, and if the Governor or his authorized representative notifies the Treasurer and Comptroller of such fact in writing. Moneys deposited into the GOBRI Fund to provide for the payment of Short-Term Debt are excluded from any calculation used in determining the ability of the State to suspend transfers to the GOBRI Fund for the payment of the GO Bonds.

Moneys in the GOBRI Fund, by law, are used for the payment of the principal of and interest on all GO Bonds issued under the Bond Act and for the payment of the principal of and interest on Short-Term Debt.

The Bond Act provides that if the State fails to pay the principal of, interest on, or premium, if any, on any of the GO Bonds as the same become due, the holder of the GO Bonds on which such a payment default exists may institute a civil action to compel payment in the Supreme Court of Illinois as a court of original jurisdiction.

The following Table 2 shows a history of debt service transfers to the GOBRI Fund from the various funds described above during Fiscal Year 2012 through Fiscal Year 2016.

TABLE 2
GENERAL OBLIGATION BONDS
TRANSFERS TO THE GOBRI FUND FOR PAYMENT OF DEBT SERVICE
FISCAL YEARS 2012-2016[1]
($ in millions)

	2012	2013	2014	2015	2016
General Revenue Fund					
Capital Bonds	$ 452.8	$ 548.8	$ 602.9	$ 591.6	$ 556.5
Pension Bonds	1,607.2	1,554.6	1,655.4	1,502.2	1,422.6
Road Fund	332.9	359.3	358.7	346.7	333.7
School Infrastructure Fund	216.3	209.5	208.8	192.8	211.8
Capital Projects Fund	240.8	310.1	344.2	388.0	532.5
TOTAL	$2,850.6	$2,982.3	$3,170.0	$3,021.4	$3,057.1

Source: Governor's Office of Management and Budget

1 Does not include debt service transfers on Short-Term Debt as may have been from time to time outstanding.

CERTAIN INVESTMENT CONSIDERATIONS

Purchase and ownership of the Bonds is subject to a variety of risks. Each prospective investor in the Bonds is encouraged to read this Official Statement in its entirety. Particular attention should be given to the investment considerations described below which, among other things, could affect the financial condition of the State and therefore result in a repayment risk for investors, and could also affect the liquidity and/or market value of the Bonds after they are issued. The considerations described below are not all of the investment considerations associated with the purchase and ownership of the Bonds. The inclusion or omission of considerations from this section, and the order in which they are presented, do not necessarily reflect the relative importance of the various investment considerations.

INVESTMENT CONSIDERATIONS RELATING TO THE FINANCIAL CONDITION OF THE STATE

Budget Impasse

The State has been operating since July 1, 2015 without fully enacted General Funds Budgets for Fiscal Years 2016 and 2017. Although certain spending has continued to occur, including debt service payments on the State's GO Bonds, there have been delays in payments of bills, and the State estimates that the backlog of bills will continue to grow significantly. See "STATE FINANCIAL INFORMATION—REVIEW OF FISCAL YEAR 2016 BUDGET PERFORMANCE" and "—FISCAL YEAR 2017 BUDGET SITUATION." The State's financial condition has been materially adversely affected by the budget impasse. The State's ability to pay vendors and to keep goods and services continuing in the areas of public safety, certain social services and public education may be jeopardized unless the General Assembly passes, and the Governor signs, appropriations to fund additional payments for these goods and services before the end of the fiscal year.

Reduction of Income Tax Rates

Effective on December 31, 2014, the rates of the State's individual income tax and of the State's corporate income tax declined pursuant to statute from 5.0 percent to 3.75 percent and from 7.0 percent to 5.25 percent, respectively. This reduction in rates is estimated to reduce annual income tax revenues by between $4 billion and $5 billion, which has materially adversely affected the State's financial condition and operations beginning in Fiscal Year 2015. See "STATE FINANCIAL INFORMATION—REVIEW OF FISCAL YEAR 2016 BUDGET PERFORMANCE" and "—FISCAL YEAR 2017 BUDGET SITUATION" and

APPENDIX A—CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS–"PART IV: Tax Review."

Severe Underfunding of the State's Retirement Systems

There is severe underfunding of the State's retirement systems. Over the past ten years, the funding levels for the State's retirement systems have deteriorated dramatically and are the lowest in the nation among state pension plans. The State's contributions to the retirement systems, while in conformity with State law, have been less than the contributions that historically would have been actuarially calculated in accordance with the financial reporting standards developed by the Governmental Accounting Standards Board. The unfunded accrued actuarial liability of the State's retirement systems (the amount by which the aggregate accrued actuarial liability exceeds the aggregate value of its assets) at the end of Fiscal Year 2015 totaled approximately $111.0 billion on a fair value basis and $112.9 billion on an actuarial basis, resulting in respective funded ratios (the ratio of the value of assets to the actuarial accrued liability, expressed as a percentage) that equaled 41.9% and 40.9%. Based on recent actuarial assumption changes by certain of the State's retirement systems combined with investment returns in Fiscal Year 2016 significantly lower than assumed for such retirement systems, the State anticipates that such retirement systems' certified contributions will increase significantly beginning with Fiscal Year 2018. See APPENDIX E—PENSION AND OTHER POST EMPLOYMENT BENEFITS.

Delays in Exercising Remedies

The rights and remedies of the Bondholders may be limited by and are subject to equitable principles that may affect the enforcement of creditors' rights and liens securing such rights, the police powers of the State and its political subdivisions, the exercise of judicial discretion in appropriate cases and limitations on legal remedies against the State. The opinions of counsel to be delivered with respect to the Bonds will be similarly qualified. Because of delays inherent in obtaining judicial remedies, it should not be assumed that these remedies could be accomplished rapidly. Any delays in the ability of the Bondholders to pursue remedies may result in delays in payment of the Bonds.

The State is not authorized to file for bankruptcy protection under current federal bankruptcy law. Furthermore, there are federal Constitutional issues which raise doubt about the legality of any legislation of the United States Congress that would purport to permit the State to adjust its debts in a proceeding under federal bankruptcy law.

Risks Related to Variable Rate Bonds

The State's Variable Rate General Obligation Bonds, Series B of October 2003 (the "Series 2003B Bonds"), currently outstanding in the aggregate principal amount of $600 million, are expected to be remarketed on November 7, 2016 to four banks in a direct placement transaction in which the Series 2003B Bonds will bear either a LIBOR-based interest rate or a SIFMA-based interest rate, with a mandatory tender date on or about November 7, 2018. Pursuant to, and in accordance with the conditions set forth in, continuing covenants agreements with such banks, the Series 2003B Bonds that are not paid, redeemed or remarketed on such mandatory tender date will amortize more quickly than their original stated amortization schedule, and will bear interest during that amortization period at a significantly higher interest rate than the interest rate that would otherwise apply to such Series 2003B Bonds. See "GENERAL OBLIGATION INDEBTEDNESS—VARIABLE RATE BONDS."

Negative Present Value of Interest Rate Exchange Agreements

The State is currently a party to five interest rate exchange agreements that hedge interest rate risk on the Series 2003B Bonds. The terms of such agreements permit a counterparty to terminate its agreement if the other party fails to perform under the terms of such Agreement or if the other party's credit rating is withdrawn, suspended, or falls below specified ratings thresholds. If an agreement is terminated and has a negative mark-to-market value, the State would be immediately liable for a termination payment in the amount of such negative value. If the mark-to-market value of an agreement becomes positive, the State may be exposed to the risk of the bankruptcy of a counterparty, or to "basis risk" in the event the interest rate on the Series 2003B Bonds exceeds the interest rate payable by the counterparties to the State under the agreements. All five agreements currently have negative mark-to-market values. See "GENERAL OBLIGATION INDEBTEDNESS—INTEREST RATE EXCHANGE AGREEMENTS."

Ratings

The Bonds will have ratings assigned by S&P, Moody's and Fitch Ratings Inc. ("Fitch") prior to issuance. There is no assurance that such ratings will be maintained for any given period of time or that any rating will not be lowered or withdrawn entirely. S&P and Moody's have each assigned a negative outlook and Fitch has assigned a negative rating watch to the State's general obligation debt. Fitch's rating report states that it expects its negative watch to be resolved "by the end of January [2017] based on the progress of the fiscal 2017 budget" and further indicates "[t]o stabilize the rating, the [state] will need to address the fiscal 2017 budget following the election in November or at the latest during a January legislative session. While it is unlikely that any actions taken would fully address the fiscal 2017 budget gap, Fitch will be looking for a solution that is comprehensive in its approach, addressing structural budget balance and including a plan to address accumulated liabilities. Failure to do so would result in a rating downgrade." Any revision or withdrawal of any such ratings could have a material adverse effect on the availability of a market for the Bonds or the prices at which the Bonds may be resold. See "RATINGS."

INVESTMENT CONSIDERATIONS RELATING TO TAX-EXEMPT MUNICIPAL OBLIGATIONS

Future Changes in Federal Tax Laws

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

Loss of Tax Exemption

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

IRS Bond Examinations

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

STATE OF ILLINOIS

ORGANIZATION

The State is formally organized according to executive, legislative and judicial functions. The Governor is the chief executive of the State and is generally responsible for the administration of the Executive Branch of the State other than the offices of other constitutionally-elected officials. The other constitutionally-elected officials of the Executive Branch include the Lieutenant Governor, the Attorney General, the Secretary of State, the Illinois State Comptroller (the "Comptroller") and the Illinois State Treasurer (the "Treasurer"). The Auditor General, Frank J. Mautino, is a constitutional officer appointed for a term of 10 years, effective January 1, 2016, and was confirmed by a three-fifths vote of both houses of the General Assembly.

The Illinois Constitution provides that all elected officials of the Executive Branch hold office for four-year terms. The State's current elected constitutional officials are Governor Bruce Rauner, Lieutenant Governor Evelyn Sanguinetti, Attorney General Lisa Madigan, Secretary of State Jesse White, and Treasurer Michael W. Frerichs. Pursuant to the Illinois Constitution, these officials were elected at a general election in November 2014, and took office on January 12, 2015. The elected constitutional officers are each elected to serve a four-year term. Due to a vacancy in the Office of the Comptroller, Comptroller Leslie Geissler Munger was appointed January 12, 2015 and will serve a two-year term. There will be a special election for Comptroller on November 8, 2016.

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 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 Treasurer is also responsible for ensuring that investment of State funds complies with the Public Funds Investment Act (30 ILCS 235).

The legislative power of the State is vested in the General Assembly, which is composed of 59 Senators and 118 members of 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 2014. Members of the House of Representatives were elected to serve two-year terms, while members of the Senate were elected to serve two-year or four-year terms as set forth in the Illinois Constitution.

All members of the House of Representatives and two-thirds of the members of the Senate are standing for election on November 8, 2016.

The Judicial Branch is composed of the Supreme Court, the Appellate Courts and the Circuit Courts. Pursuant to Illinois law, judicial elections will be held on November 8, 2016.

CONSTITUTIONAL PROVISIONS

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 (generally, the third Wednesday in February), 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 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

Article IX, Section 9(a) 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."

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

Constitutional Provisions Relating to Short-Term Borrowing

Article IX, Sections 9(c) and 9(d) of the Illinois Constitution, pursuant to which the Short Term Borrowing Act, as amended (30 ILCS 340/1 *et seq.*) (the "Short Term Borrowing Act"), was enacted, permit State debt to be incurred in anticipation of revenues to be collected in a fiscal year 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. Additionally, State debt may be incurred in an amount not exceeding 15% of the State's appropriations for a fiscal year to meet deficits caused by emergencies or failures of revenue. Such debt must be repaid within one year of the date it is incurred.

Constitutional Provision Relating to Refundings

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

GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

The Governor's Office of Management and Budget ("GOMB") is organized under the Governor's Office of Management and Budget Act (20 ILCS 3005/1 *et seq*.). GOMB is headed by a Director (the "Director") appointed by the Governor. GOMB assists the Governor in developing the State's annual operating and capital budgets, as called for in statute (20 ILCS 3005/2.1 and 20 ILCS 3005/2.5). These budgets are introduced by the Governor for each fiscal year and must contain estimated revenues and recommended appropriations for the upcoming fiscal year that are balanced consistently with State constitutional requirements. The General Assembly, by a joint resolution, is required by Article VIII, Section 2(b) of the Illinois Constitution to adopt estimated revenues that may differ from the introduced budget. Similarly, the General Assembly is required to adopt formal appropriations which may differ from the introduced budget; those appropriations authorize expenditures by the State for designated purposes.

In addition to assisting the Governor in developing and managing 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 ("MSRB") under its Electronic Municipal Market Access ("EMMA") system and other securities information repositories or state information depositories as required by federal securities rules. See "CONTINUING DISCLOSURE" and APPENDIX D—FORM OF CONTINUING DISCLOSURE UNDERTAKING.

STATE FINANCIAL INFORMATION

SOURCES

The tables that follow present pertinent financial information about the State. Data is for the State's fiscal years, unless otherwise noted, each of which runs from July 1 through June 30. Financial information contained in this section is drawn from the records and reports of the Comptroller and documents prepared by GOMB.

MEASUREMENT BASES

Financial information reported by the State is prepared and reported under one of three measurement bases: (i) the cash basis of accounting; (ii) the budget basis of accounting; and (iii) the GAAP (Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board) basis of accounting. The basis used in preparing financial information impacts the manner in which revenues and expenditures are recognized in preparing these financial reports. The bases used by the State are described in APPENDIX G—ACCOUNTING PRACTICES USED IN STATE FINANCIAL INFORMATION.

FINANCIAL REPORTS

The Comptroller annually prepares two separate financial reports that are audited by the Illinois Auditor General, who also opines on the financial statements contained in those reports.

As the fiscal control officer of the State, the Comptroller issues a *Comprehensive Annual Financial Report* ("CAFR"), which includes financial statements detailing receipts and expenditures for each year. The CAFR is prepared according to GAAP and contains 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 may publish unaudited financial statements and a written explanation to State leadership explaining the reasons for the delay beginning with the CAFR for Fiscal Year 2012. However, pursuant to Public Act 97-0691, the lapse period for certain expenses was permanently extended past the 60-day lapse period granted to most appropriations. This extension makes the publication of unaudited financial statements by December 31 problematic in years in which bills are paid during the end of such lapse period. The State has covenanted in its continuing disclosure undertakings to file the CAFR within 30 days after its availability to GOMB. See "CONTINUING DISCLOSURE" and APPENDIX D—FORM OF CONTINUING DISCLOSURE UNDERTAKING.

The Comptroller also annually prepares and issues the *Traditional Budgetary Financial Report* ("TBFR") using accounting practices prescribed or permitted by the State Comptroller Act (15 ILCS 405) that represent the budget basis of accounting. Presentation practices in the TBFR are materially different from the GAAP presentation practices used in the CAFR. A final copy of the Fiscal Year 2015 TBFR can be found on the Comptroller's website. Under Section 20 of the State Comptroller Act, the TBFR for each fiscal year is to be released by December 31 of each year. See APPENDIX F—WEBSITE INDEX.

Key differences between the accounting practices used in the TBFR and GAAP utilized in preparing the Fiscal Year CAFR are described in APPENDIX G—ACCOUNTING PRACTICES USED IN STATE FINANCIAL INFORMATION.

The CAFR and the TBFR for Fiscal Year 2016 are not yet available. Table A-5 in APPENDIX A—CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS, shows General Funds receipts and disbursements on a cash basis.

FINANCIAL RESULTS: FY2011-FY2015

Tables 3 and 4, which are presented on the following pages, describe the General Funds revenues and expenditures of the State for the past five fiscal years prepared on a cash or budget basis and are drawn from the Fiscal Year 2015 TBFR. The budget basis reflects the statutory provisions and associated policies for recognition of revenues, expenditures, transfers and outstanding liabilities associated with the passage and adoption of the General Funds budget for each fiscal year. As discussed above, budget basis statements differ materially from those prepared on the basis of GAAP.

Table 3 lists cash basis revenues which include cash receipts from State sources, statutory transfers in, and federal sources, both receipts and transfers in. Table 3 also segregates Base Revenues from Total Revenues where the differences include one-time receipts in the form of short term borrowings as well as cash management transfers for cash flow purposes that are repaid either within the same or subsequent fiscal years and reported as expenditures in Table 4.

Table 4 lists budget basis expenditures based upon warrants issued by the Comptroller during the fiscal year. The expenditures by warrant for each fiscal year are reported using three different approaches: (1) by agency that incurred the expenditure, (2) by categorical form of the expenditure, and (3) by functional category of the expenditure, and Table 4 also reports transfers out. Table 4 also segregates Base Expenditures from Total Expenditures, reflecting repayment of short term borrowings and cash management transfers that were receipts in either the same or prior fiscal years, as reported in Table 3.

For an operating statement explaining the changes during Fiscal Year 2015 in both cash balance as well as fund balance, reflecting the cash basis and budget basis, respectively, see Table G-1 in APPENDIX G—ACCOUNTING PRACTICES USED IN STATE FINANCIAL INFORMATION.

TABLE 3
(Cash Basis)
GENERAL FUNDS ANALYSIS OF REVENUES
($ in Millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2015 Increase or Decrease Amount	FY 2015 Increase or Decrease Percent	FY 2015 Where the Dollar Came From
STATE SOURCES:								
CASH RECEIPTS:								
Income Taxes								
Individual	$11,225	$15,512	$16,538	$16,642	$15,433	$(1,209)	(7.3)%	
Corporate	1,851	2,461	3,177	3,164	2,686	(478)	(15.1)	
Total, Income Taxes	13,076	17,973	19,715	19,806	18,119	(1,687)	(8.5)	49.5%
Sales Taxes	6,833	7,226	7,355	7,676	8,030	354	4.6	21.9
Short-Term Borrowing	1,300	0	0	0	0	0	N/A	0.0
Other Sources								
Public Utility Taxes	1,147	995	1,033	1,013	1,006	(7)		
Cigarette Taxes	355	354	353	353	353	0		
Insurance Tax & Fees	316	345	334	333	353	20		
Inheritance Tax (gross)	122	235	293	276	333	57		
Cook County Intergovernmental Transfer	244	244	244	244	244	0		
Corporate Franchise Tax & Fees	207	192	205	203	211	8		
Liquor Gallonage Taxes	157	164	165	165	167	2		
Investment Income	28	21	20	20	25	5		
Other Taxes, Licenses, Fees & Earnings	435	501	504	624	735	111		
Total, Other Sources	3,011	3,051	3,151	3,231	3,427	196	6.1	9.4
TOTAL, CASH RECEIPTS	$24,220	$28,250	$30,221	$30,713	$29,576	$(1,137)	(3.7)%	80.8%
TRANSFERS IN FROM OTHER STATE FUNDS:								
Budget Implementation Acts	$ 30	$ 10	$ 0	$ 0	$ 1,284	$ 1,284		
Lottery Fund	632	640	656	668	678	10		
Interfund Borrowing	496	0	0	0	454	454		
Build Illinois Fund	255	300	281	265	337	72		
State Gaming Fund	324	340	345	321	292	(29)		
Budget Stabilization Fund	535	275	275	275	275	0		
Capital Projects Fund	205	420	210	280	185	(95)		
Hospital Provider Fund	80	80	80	80	80	0		
Income Tax Refund Fund	0	0	0	397	63	(334)		
Protest Fund	38	7	10	13	18	5		
Metropolitan Exposition Auditorium & Office Building Fund	28	14	15	13	14	1		
Warrant Escheat Fund	8	7	9	15	11	(4)		
State Whistleblower Reward and Protection Fund	31	6	44	38	6	(32)		
FY13/FY14 Backlog Payment Fund	0	0	264	50	0	(50)		
Tobacco Settlement Recovery Fund	1,250	3	2	0	0	0		
Community Developmental Disability Services Medicaid Trust Fund	19	21	24	0	0	0		
McCormick Place Expansion Project Fund	9	4	0	0	0	0		
Pension Contribution Fund	224	0	0	0	0	0		
Public Aid & DHS Recoveries Trust Funds	10	0	0	0	0	0		
All Other Funds	17	13	13	12	13	1		
TOTAL, TRANSFERS IN	$ 4,191	$ 2,140	$ 2,228	$ 2,427	$ 3,710	$1,283	52.9%	10.1%
TOTAL, STATE SOURCES	**$28,411**	**$30,390**	**$32,449**	**$33,140**	**$33,286**	**$ 146**	**0.4%**	**90.9%**
FEDERAL SOURCES:								
CASH RECEIPTS:								
Department of Healthcare and Family Services	$ 4,735	$ 3,557	$ 3,999	$ 3,761	$ 3,180	$ (581)		
Department of Human Services	587	74	107	98	109	11		
All Other Agencies	6	6	5	8	7	(1)		
TOTAL, CASH RECEIPTS	$ 5,328	$ 3,637	$ 4,111	$ 3,867	$ 3,296	$ (571)		
TRANSFERS IN:								
Federal Trust Funds	$ 58	45	$ 43	$ 36	$ 35	$ (1)		
TOTAL, FEDERAL SOURCES.	**$ 5,386**	**$ 3,682**	**$ 4,154**	**$ 3,903**	**$ 3,331**	**$ (572)**	**(14.7)%**	**9.1%**
TOTAL, REVENUES	**$33,797**	**$34,072**	**$36,603**	**$37,043**	**$36,617**	**$ (426)**	**(1.2)%**	**100.0%**
Transfer from Budget Stabilization Fund	276	275	275	275	275	0		
Short-Term Borrowing	1,300	0	0	0	0	0		
Interfund Borrowing	496	0	0	0	454	454		
Cash Flow Transfer.	259	0	0	0	0	0		
TOTAL, BASE REVENUES[1]	**$31,466**	**$33,797**	**$36,328**	**$36,768**	**$35,888**	**$ (880)**	**(2.4)%**	

Source: Traditional Budgetary Financial Report Fiscal Year 2015, unaudited.

[1] Base Revenues equal Total Revenues less the adjustment items listed below "Total, Revenues" above.

TABLE 4
(Budget Basis)
GENERAL FUNDS ANALYSIS OF EXPENDITURES
($ in Millions)

WARRANTS ISSUED:	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2015 Increase or Decrease Amount	FY 2015 Increase or Decrease Percent	FY 2015 Where the Dollar Was Spent
BY AGENCY:								
State Board of Education	$ 6,912	$ 6,739	$ 6,539	$ 6,681	$ 6,545	$ (136)	(2.0)%	18.4%
Healthcare and Family Services	7,309	8,158	6,726	7,292	6,525	(767)	(10.5)	18.3
Teachers Retirement System	256	2,494	2,790	3,529	3,479	(50)	(1.4)	9.8
Human Services	3,894	3,415	3,448	3,217	3,363	146	4.5	9.4
Higher Education Agencies:								
Universities Retirement System	4	755	1,257	1,316	1,352	36	2.7	
University of Illinois	697	689	662	663	644	(19)	(2.9)	
Student Assistance Commission	444	405	380	382	375	(7)	(1.8)	
Community College Board	358	361	340	342	338	(4)	(1.2)	
Southern Illinois University	221	218	205	205	200	(5)	(2.4)	
All Other	422	416	390	395	382	(13)	(3.3)	
Total, Higher Education Agencies	2,146	2,844	3,234	3,303	3,291	(12)	(0.4)	9.2
All Other Agencies:								
Central Management Services	96	75	1,481	1,513	1,608	95	6.3	
Corrections	1,205	1,210	1,172	1,276	1,310	34	2.7	
State Employees Retirement System	39	904	1,049	1,097	1,149	52	4.7	
Aging	646	731	1,060	935	880	(55)	(5.9)	
Children and Family Services	840	806	721	684	672	(12)	(1.8)	
Judicial Agencies	323	375	398	458	497	39	8.5	
State Police	272	271	245	286	254	(32)	(11.2)	
Secretary of State	259	258	250	258	292	34	13.2	
Other Agencies	1,272	1,017	1,201	1,010	909	(101)	(10.0)	
Total, All Other Agencies	4,952	5,647	7,577	7,517	7,571	54	0.7	21.3
Prior Year Adjustments	(22)	(88)	(21)	(60)	(11)	49	N/A	(0.0)
BY CATEGORY:								
Awards and Grants	$18,016	$20,229	$20,430	$21,141	$20,828	$ (313)	(1.5)%	58.5%
Operations	7,453	9,048	9,870	10,387	9,938	(449)	(4.3)	27.9
Permanent Improvements and Highway Construction	0	8	8	6	8	2	33.3	0.0
Refunds	0	12	6	5	0	(5)	N/A	0.0
Prior Year Adjustments	(22)	(88)	(21)	(60)	(11)	49	N/A	(0.0)
BY FUNCTION:								
Education	$ 9,358	$12,088	$12,575	$13,525	$13,377	(148)	(1.1)%	37.6%
Health and Social Services	13,016	13,351	12,173	12,333	11,627	(706)	(5.7)	32.7
General Government	813	1,661	3,423	3,297	3,397	100	3.0	9.5
Public Protection and Justice	1,939	1,996	1,966	2,186	2,210	24	1.1	6.2
Employment and Economic Development	173	100	93	101	73	(28)	(27.7)	0.2
Environment and Business Regulation	92	68	56	70	85	15	21.4	0.2
Transportation	78	21	22	22	5	(17)	(77.3)	0.0
Refunds	0	12	6	5	0	(5)	N/A	0.0
Prior Year Adjustment	(22)	(88)	(21)	(60)	(11)	49	N/A	(0.0)
TOTAL, WARRANTS ISSUED	$25,447	$29,209	$30,293	$31,479	$30,763	$ (716)	(2.3)%	86.4%
TRANSFERS OUT	6,937	5,164	5,350	5,497	4,858	(639)	(11.6)	13.6
TOTAL, EXPENDITURES	**$32,384**	**$34,373**	**$35,643**	**$36,976**	**$35,621**	**$(1,355)**	**(3.7)%**	**100.0%**
Repayment of Short-Term Borrowing	1,322	0	0	0	0	0		
Cash Flow Transfer	260	0	0	0	0	0		
Repayment of Interfund Borrowing	9	355	133	0	0	0		
Transfer to Budget Stabilization Fund	276	550	275	275	275	0		
TOTAL, BASE EXPENDITURES[1]	**$30,517**	**$33,468**	**$35,235**	**$36,701**	**$35,346**	**$(1,355)**	**(3.7)%**	

Source: Traditional Budgetary Financial Report Fiscal Year 2015, unaudited.

[1] Base Expenditures equal Total Expenditures less the adjustment items listed below "Total, Expenditures" above.

ACCOUNTS PAYABLE

As described below, Table 5 includes General Funds lapse period transactions at the end of a fiscal year as reported in the TBFR, which represent budget basis accounts payable. On a GAAP basis, and as reported in the CAFR, the General Funds of the State also carry other liabilities not detailed in Tables 3, 4 and 5. The lapse period transaction amounts (i.e., budget basis accounts payable) do not include Section 25 liabilities that represent incurred legal liabilities for Medicaid and group health insurance that are paid from the appropriations of subsequent fiscal years because appropriation authority for those expenditures in the current year has been exhausted, nor does it include amounts for which sufficient current year appropriations were not provided.

Table 5 includes Budget Basis Accounts Payable, General Funds Section 25 Liabilities that have accrued during the current and prior fiscal years, but that will be paid from future fiscal years' appropriations, payable from the General Funds, and Section 25 Liabilities attributed to funds outside of the General Funds.

TABLE 5
ACCOUNTS PAYABLE
AS OF THE END OF EACH FISCAL YEAR 2011-2015
($ in millions)

	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
General Funds Budget Basis Accounts Payable[1]	$4,976	$5,024	$4,142	$4,005	$3,521
General Funds Section 25 Liabilities[2]	1,604	2,778	1,864	1,622	1,598
Total General Funds Accounts Payables	$6,580	$7,802	$6,006	$5,627	$5,119
Section 25 Liabilities - Other State Funds	$ 237	$ 850	$ 489	$ 429	$ 316

Source: Illinois Office of the Comptroller. Section 25 Liabilities are released with the CAFR.

1 This amount consists of General Funds Lapse Period Transactions as reported in the TBFR. Final Fiscal Year 2016 numbers will not be available until the publication of the TBFR. This amount is expected to total approximately $4 billion for Fiscal Year 2016.

2 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. Fiscal Year 2016 numbers will not be available until the publication of the State's CAFR, but are expected to increase from Fiscal Year 2015.

Tables 3, 4, 5, G-1 and the State's CAFR, as well as accompanying footnotes, taken together, should be referenced for a more complete understanding of the financial statements.

FISCAL YEAR 2015

REVIEW OF FISCAL YEAR 2015 ENACTED BUDGET

The Fiscal Year 2015 budget went into effect July 1, 2014. The following summarizes the Fiscal Year 2015 General Funds budget as originally enacted.

Original Fiscal Year 2015 Budget Revenue Estimate. Total General Funds revenues for Fiscal Year 2015 were projected to be $35.1 billion, a reduction from actual Fiscal Year 2014 results of $1.7 billion (4.5 percent). This primarily reflected a decrease of $1.9 billion in individual income tax and corporate income tax revenues due to the statutory reduction in the individual income tax rate from 5 percent to 3.75 percent and the corporate income tax rate from 7 percent to 5.25 percent, effective January 1, 2015.

Federal sources were projected to increase to $4.5 billion in Fiscal Year 2015 from actual Fiscal Year 2014 results of $3.9 billion due primarily to increased Medicaid matching dollars associated with the Affordable Care Act and the resulting higher Medicaid enrollment. Transfers in were projected to decline to $1.8 billion in Fiscal Year 2015 from actual Fiscal Year 2014 results of $2.2 billion. One-year statutory authority for the Governor to interfund borrow up to $650 million in Fiscal Year 2015 was approved by the General Assembly but not reflected in these original revenue estimates.

Original Fiscal Year 2015 Forecasted Expenditures. Total General Funds expenditures for Fiscal Year 2015 were estimated to be $35.8 billion, a decline of $1.0 billion or 2.7 percent from actual Fiscal Year 2014 results. Expenditures for operations were forecasted to decline by $712 million between Fiscal Year 2015 and Fiscal Year 2014, offset by an increase in pension expense of $57 million to $6.0 billion and a decrease in unspent appropriations of $199 million to $334 million from the $533 million projected for Fiscal Year 2014.

Transfers out of the General Funds were projected to decline by $556 million to $2.4 billion in Fiscal Year 2015 from actual Fiscal Year 2014 results of $2.9 billion due to a supplemental appropriation of $600 million in Fiscal Year 2014 that was used to pre-fund the Healthcare Provider Relief Fund described above. This pre-funding decreased appropriations by an equal amount in Fiscal Year 2015 and accounted for the reduction in transfers out.

Additionally, debt service for both pension and capital bonds was projected to decrease by $62 million, reflecting a decline in debt service for pension bonds of $154 million and an increase in debt service for capital bonds of $92 million, based on amortization of the pension bonds and the increased level of outstanding capital bonds.

FISCAL YEAR 2015 MID-YEAR BUDGET ACTIONS

In early 2015, following the newly elected Governor's review of the State's Fiscal Year 2015 General Funds budget and in preparation for development of the Fiscal Year 2016 Budget Proposal (described below and available on GOMB's website (see APPENDIX F—WEBSITE INDEX)), revised General Funds revenue and expenditure estimates for Fiscal Year 2015 were released. In February 2015, Fiscal Year 2015 General Funds revenue estimates were revised downward to $34,069 million, from $35.1 billion, including a reduction in estimated federal revenues to $3,676 million from the original estimate of $4.5 billion. The Governor's revised estimate of Fiscal Year 2015 General Funds expenditures totaled $35,687 million, including proposed General Funds supplemental appropriations in the amount of $556 million to cover the shortfall in appropriations in the originally enacted budget. The Governor estimated that the Fiscal Year 2015 operational deficit would total $1.6 billion absent further action.

In the spring of 2015, the Governor and the General Assembly took several actions to address the estimated budgetary basis deficit in the General Funds budget. These budget actions were primarily included in P.A. 99-001 and P.A. 99-002 and included:

- $1,284 million in reallocation of excess fund balances in other State funds to the General Funds;
- 2.25 percent reductions to many General Funds appropriation lines that yielded nearly $400 million in reduced spending authority for State agencies; and
- The Governor's issuance of Executive Order 2015-08, under which some spending was reduced, reserves were established and some grants were suspended.

Additionally, faced with the clear prospect of a budget impasse, in June 2015 the Governor used expiring statutory authority provided for Fiscal Year 2015 to interfund borrow $454 million from other State funds for the purpose of enhancing cash flow as the State entered Fiscal Year 2016 with no budget in place.

The Fiscal Year 2015 interfund borrowing was originally required to be repaid by the end of December 2016 (not more than 18 months from the borrowing). Under Public Act 99-523, this borrowing does not need to be repaid in its entirety; the Governor intends to repay approximately $15 million by the end of December 2016.

FISCAL YEAR 2015 ACTUAL RESULTS

Revenues. Fiscal Year 2015 total State General Funds operating revenues and transfers in (not including $454 million in revenues from interfund borrowing or $275 million in transfers from the Budget Stabilization Fund) totaled $35,888 million, an $880 million or 2.4 percent decrease over Fiscal Year 2014. State revenue sources totaled $29,576 million, of which the State's three primary sources (individual income tax, corporate income tax and sales tax) comprised 88.4 percent. Effective January 1, 2015, the individual income tax rate decreased from 5.0 percent to 3.75 percent and the corporate income tax rate moved from 7.0 percent to 5.25 percent. These rate changes reduced State revenues. Individual income tax revenues to the General Funds decreased $1,209 million, or 7.3 percent, from Fiscal Year 2014 to $15,433 million. Net individual income tax receipts reflected 10.0 percent of total individual income tax revenues being diverted to the Income Tax Refund Fund for payment of individual income tax refunds and $480 million deposited into State funds dedicated for education and human services purposes.

Corporate income tax revenues deposited into the General Funds totaled $2,686 million, a $478 million, or 15.1 percent decrease from Fiscal Year 2014, primarily due to the rate decrease. This amount reflects 14.0 percent of total corporate income tax revenues being diverted to the Income Tax Refund Fund for payment of corporate income tax refunds and $4 million to the other State funds. Fiscal Year 2015 General Funds sales taxes totaled $8,030 million, an increase of $354 million or 4.6 percent. All other State sources increased by $196 million, due in part to a $57 million increase in inheritance tax receipts and a $20 million increase in insurance taxes.

Transfers in increased by $829 million or 38.5 percent, to $2,981 million. This was primarily due to a $1,284 million transfer of excess fund balances in other State funds to the General Funds pursuant to P.A. 99-002. In addition to these transfers in, $454 million was borrowed from other funds in the State Treasury and deposited into the General Funds. Under Public Act 99-523, this borrowing does not need to be repaid in its entirety; the Governor intends to repay approximately $15 million by the end of December 2016.

Federal revenues, driven primarily by State Medicaid spending and matching federal moneys, decreased from Fiscal Year 2014 by $572 million or 14.7 percent, to $3,331 million. As State revenues are recognized on a cash basis, federally matched moneys received for vouchers released after June 30 were recorded in the following fiscal year.

Compared to February 2015 estimates, General Funds revenues exceeded forecasted revenues by $535 million after excluding the revenues from transfers of excess balances from other State funds. Individual income taxes and sales taxes exceeded the forecasts by $588 million and $80 million, respectively, while federal receipts fell below the forecast by $345 million.

Expenditures. Total operating expenditures and transfers out for Fiscal Year 2015, from Fiscal Year 2015 appropriations, decreased by $1,355 million, or 3.7 percent, from Fiscal Year 2014 to $35,346 million.

Pension contributions for Fiscal Year 2015 to the State's five pension systems totaled $6,011 million from the State's General Funds, an increase of $23 million or 0.4 percent. Transfers out to other State funds in Fiscal Year 2015 were $4,583 million, or a decrease of $639 million, or 12.2 percent, from Fiscal Year 2014. This included $2,094 million to the GOBRI Fund.

Results. In the Governor's February 2015 budget proposal, the increase in the budgetary deficit in Fiscal Year 2015 was projected at $1.6 billion. On June 30, 2015, the Comptroller's Office was holding $2,830 million in General Funds bills, up from $2,404 million held on June 30, 2014. However, Fiscal

Year 2015 bills submitted to the Comptroller's Office in the State's lapse period, in the amount of $752 million, fell below the amount received in the Fiscal Year 2014 lapse period.

As a result, after adjusting for transfers due to the General Funds, Fiscal Year 2015 results as reported by the Comptroller in the TBFR reflect a $1,031 million improvement in the General Funds budgetary balance (i.e., the June 30 cash balance less the General Funds obligations paid in the State's lapse period) from a deficit of $3,931 million to a deficit of $2,900 million, as shown in Table G-1 in APPENDIX G—ACCOUNTING PRACTICES USED IN STATE FINANCIAL INFORMATION. Excluding the $454 million in revenues from interfund borrowing, the General Fund budgetary balance would have improved by $577 million. In Fiscal Year 2015, the State's General Funds Section 25 liabilities (i.e., bills from one fiscal year paid from the following fiscal year's appropriations) decreased from $1,622 million to $1,598 million, as shown on Table 5.

AUTHORIZATION FOR EXPENDITURES

The State did not enact a full General Funds budget for Fiscal Year 2016, nor has the State enacted a full Fiscal Year 2017 General Funds budget. Certain spending continues to occur in the absence of a budget. In Fiscal Year 2016 and in Fiscal Year 2017, certain appropriations were enacted and certain spending occurred through statutory transfers, statutory continuing appropriations, court orders and consent decrees.

Debt service payments on GO Bonds are covered by statutory continuing appropriations, if necessary, and the Treasurer continued to pay all Fiscal Year 2016 bond debt service payments required by the Bond Act. In Fiscal Year 2017, appropriations totaling $3,088 million were enacted to pay debt service on GO Bonds, and if this amount is insufficient, the necessary authorization will be established through continuing appropriation authority.

Statutory transfers to the GOBRI Fund from the various funds in the State Treasury have occurred, and will continue to occur, as required by statute. As of August 31, 2016, the balance in the GOBRI Fund totaled $1,137 million.

The following descriptions outline generally the ways that State spending can occur but the State cannot predict the amount of future total spending in the absence of a full budget.

- *Appropriations signed into law* – Appropriations bills that are enacted into law authorize State agencies to spend from these appropriations as permitted by law.
- *Continuing appropriations authorized by statute* – Certain State spending obligations are covered by statutory continuing appropriations; i.e., in situations where annual line-item appropriations are not enacted, an appropriation is established equal to the amount required to be spent by statute in lieu of an annual appropriation. Public Acts can create funding formulas and continuing appropriations as well as line-item appropriations. For example, the State's contributions to the five State funded retirement systems are covered by continuing appropriation language (as more fully described in APPENDIX E—PENSION AND OTHER POST EMPLOYMENT BENEFITS). Additionally, as described above, debt service payments on GO Bonds from the GOBRI Fund are covered by statutory continuing appropriations to make payments to bondholders.
- *Statutory transfers to other State funds* – Certain transfers must be made from one fund into another fund in the State Treasury based on existing statutes. Transfers from the General Funds and Road Fund into GOBRI occur through statutory transfers.
- *Court Orders/Consent Decrees* – In Fiscal Year 2016 and Fiscal Year 2017, certain spending from the General Funds has occurred without passage of a full State budget when the State has been ordered to make such payments by court order or consent decree. Various court actions taken since July 2015 and prior consent decrees have directed the State, through the Office of the

Comptroller, to continue to make payments in the absence of appropriations for items such as State employee salaries, payments to Medicaid providers, the operations of the Department of Children and Family Services and the Department of Juvenile Justice, and certain social service programs. The social service spending consent decrees have come from federal court action. Much of the spending on these programs is continuing at Fiscal Year 2015 levels as directed by the judicial branch. The State cannot predict how much spending in total might occur through these court orders, nor can the State predict if future court action might result in a different level of spending than is currently anticipated. See "LITIGATION–*State v. AFSCME.*"

REVIEW OF FISCAL YEAR 2016 BUDGET PERFORMANCE

Fiscal Year 2016 Budget Proposal. In February 2015, the Governor proposed a Fiscal Year 2016 Budget that estimated General Funds revenues would total $32.0 billion, based on the statutory tax rates in effect at the time of his proposal. This was a forecasted reduction from Fiscal Year 2015 of $2,069 million due primarily to the full year impact of the statutory decrease of the individual and corporate State income tax rates that took effect January 1, 2015.

The Governor's budget proposal estimated that under a maintenance "auto-pilot" General Funds Fiscal Year 2016 Budget (i.e., with no changes to State statutes or other spending controls), spending would total $38,210 million, or over $6 billion more than the baseline revenue forecast. The Governor instead recommended Fiscal Year 2016 General Funds spending totaling $31,495 million, a decrease of approximately $4 billion from Fiscal Year 2015 spending and a decrease of over $6 billion from the "auto-pilot" projection. In the Governor's budget proposal, recommended Fiscal Year 2016 General Funds appropriations totaled $28,442 million and estimated transfers out of the General Funds totaled $3,706 million, including $2,137 million in transfers for general obligation bond debt service, with estimated lapsed appropriations of $653 million.

In May 2015, the General Assembly took action on several appropriation bills and forwarded them to the Governor for his approval. In June 2015, the Governor signed certain parts of the budget into law, including funding for elementary and secondary education, State payments to the Teachers' Retirement System, and capital appropriations for the Illinois Department of Transportation. However, during the summer the Governor vetoed the vast majority of appropriation bills, including bills funding the majority of the State's General Funds budget, noting that projected spending from those proposals exceeded forecasts of available revenue by well over $4 billion. Over the remainder of Fiscal Year 2016, other appropriations were enacted for some Fiscal Year 2016 costs, including some higher education costs, spending of certain federal revenues received by the State, and most appropriations from State funds outside of the General Funds, including revenue sharing with local governments of motor fuel taxes and gaming revenues, critical State operations appropriations, payments to the Metropolitan Pier and Exposition Authority and debt service on State Civic Center bonds.

Fiscal Year 2016 Spending in Absence of a Budget. The State ended Fiscal Year 2016 without a fully enacted budget in place. As described above, certain spending continued to occur in the absence of a budget. During Fiscal Year 2016, General Funds spending occurred in the following approximate amounts:

- *Appropriations signed into law* – Enacted Fiscal Year 2016 General Funds appropriations totaled $11.0 billion. Certain General Funds appropriations were enacted into law including $6.5 billion in spending on elementary and secondary education costs, $3.7 billion for the State's annual contribution to the Teachers' Retirement System, $600 million in General Funds appropriations for State universities, community colleges and monetary assistance grants for college students, and $28 million in General Funds appropriations for domestic violence shelters and spending by the Secretary of State through June 30, 2016.

- *Continuing appropriations authorized by statute* – Fiscal Year 2016 General Funds continuing appropriations spending totaled approximately $3.4 billion. Approximately $3 billion in General Funds appropriations was established for payments to the State's retirement systems in addition to the amount appropriated for the Teachers' Retirement System. Additionally, certain spending related to some retiree health care and operations of the legislative and judicial branches continued pursuant to continuing appropriations.
- *Debt service and other statutory transfers to other State funds* –$1,979 million in General Funds transfers to the GOBRI Fund for debt service on GO Bonds and approximately $2,472 million in transfers to other State funds for other purposes, primarily the Local Government Distributive Fund and mass transit funding for the Regional Transportation Authority and for downstate transit systems, were authorized to be transferred in Fiscal Year 2016 from the General Funds under existing State statutes. Transfers out of the General Funds totaled $4,451 million.
- *Court Orders/Consent Decrees* –Approximately $12.4 billion in spending from the General Funds occurred in Fiscal Year 2016 through court orders, including approximately $6.1 billion on Medicaid-related costs and approximately $3 billion on State employee salaries and related costs.

Revised Fiscal Year 2016 Revenue Results. In February 2016, the Governor included revised estimates of Fiscal Year 2016 revenues and expenditures in the Fiscal Year 2017 Budget Proposal. At that time, under current statutes, total General Funds revenues for Fiscal Year 2016 were projected to be $31,712 million, a reduction from base Fiscal Year 2015 revenues of $4,176 million (11.6 percent). This reflected the projected decline of $3.5 billion in individual income tax and corporate income tax revenues attributable to the full year impact of the statutory reduction in the individual income tax rate. Federal sources were projected to increase to $4,161 million in Fiscal Year 2016, but this increase was noted as dependent on the ability of the State to make certain levels of payments to Medicaid service providers to qualify for the federal reimbursement. Some of the federal reimbursement revenue related to Fiscal Year 2016 obligations is expected to be received by the State in Fiscal Year 2017. The estimate also did not include an estimate for transfers of excess balances from other State funds as had occurred in Fiscal Year 2015 in the amount of the $1,284 million.

The final results for Fiscal Year 2016 total State General Funds operating revenues, federal moneys and transfers in (not including $275 million in transfers from the Budget Stabilization Fund) totaled $30,373 million, a $5,515 million decrease over Fiscal Year 2015. State revenue sources and transfers from other State funds totaled $27,708 million, of which the State's three primary sources (individual income tax, corporate income tax and sales tax) comprised 82.7 percent.

Individual income tax revenues to the General Funds decreased $2,543 million, or 16.5 percent, from Fiscal Year 2015 to $12,890 million. Net individual income tax receipts reflected 9.8 percent of total individual income tax revenues being deposited into the Income Tax Refund Fund for payment of individual income tax refunds and $916 million deposited into State funds dedicated for education and human services purposes.

Corporate income tax revenues deposited into the General Funds totaled $1,972 million, a $714 million, or 26.6 percent, decrease from Fiscal Year 2015, primarily due to the rate decrease. This amount reflects 15.5 percent of total corporate income tax revenues being diverted to the Income Tax Refund Fund for payment of corporate income tax refunds and $2 million to the other State funds.

Fiscal Year 2016 General Funds sales taxes totaled $8,063 million, an increase of $33 million or 0.4 percent.

All other State sources decreased by $225 million, due in part to an $80 million decrease in public utility tax receipts.

Transfers in decreased by $1,401 million, or 47.0 percent, to $1,581 million. This was primarily due to a one-time transfer of $1,284 million of excess fund balances in other State funds to the General Funds pursuant to P.A. 99-002. Federal revenues, driven primarily by State Medicaid spending and matching federal moneys and the timing of the release of those payments by the Comptroller, decreased from Fiscal Year 2015 by $666 million or 20.0 percent, to $2,665 million. As State revenues are recognized on a cash basis, federally matched moneys received for vouchers released after June 30 were recorded in the following fiscal year.

Compared to February 2016 estimates, General Funds revenues fell below forecasted revenues by $1,339 million due primarily to lower than forecasted federal receipts. Federal receipts fell below the forecast by $1,496 million due to lower than forecasted Medicaid spending from the General Funds and delayed release of Medicaid vouchers. Individual income taxes exceeded the forecasts by $555 million, while corporate and sales taxes fell below forecasts by $303 and $77 million, respectively.

Current Fiscal Year 2016 Estimated Expenditure Results. Total General Funds expenditures for Fiscal Year 2016 are not finalized at this time as the Fiscal Year 2016 lapse period has not been closed. Final numbers are expected by the end of December 2016. The estimated General Funds spending on commitments outlined above totals $31.3 billion. However, certain obligations of the State were not paid during Fiscal Year 2016 while services continued with expectations for future payments. See "LITIGATION–*Illinois Collaboration on Youth, et al. v. Dimas, et al.*"

Areas for which the State did not provide payments at levels seen in Fiscal Year 2015 from the General Funds, but for which the State has historically provided significant financial commitment, include General Revenue Fund payments to State employee health insurance providers (some payments are moving to providers from other State funds), operational costs of certain State agencies, and social service programs that were not covered under a court order or consent decree. In addition, appropriations for higher education included in P.A. 99-502 were below historical levels of higher education funding. The State estimates that the General Funds financial commitment of the State in Fiscal Year 2016 for State employee health insurance providers and other State operational and grant costs, but not including higher education, totaled approximately $3.0 billion. Fiscal Year 2016 General Funds appropriations for higher education were approximately $1 billion below the amount proposed in the Governor's Fiscal Year 2016 budget proposal. If these amounts had been fully appropriated, Fiscal Year 2016 General Funds spending would have totaled an estimated $35.3 billion.

FISCAL YEAR 2017 BUDGET SITUATION

Governor's Fiscal Year 2017 Budget Proposal. On February 17, 2016, Governor Rauner presented his Fiscal Year 2017 Budget Proposal. Total State operating revenues and transfers in from other State funds were estimated to total $32,818 million for Fiscal Year 2017. The State's three largest revenue sources, individual income tax, corporate income tax and state sales tax, were estimated to total $23,271 million. The estimate assumed the continued diversion of revenues to the Fund for the Advancement of Education and the Commitment to Human Services Fund as provided under current law and the receipt of non-recurring revenues from the divestiture of the Thompson Center State Office Building into the General Revenue Fund.

Federal revenues were projected to total $4,267 million. Budgeted transfers in for Fiscal Year 2017 were projected to be $1,969 million, including a proposed one-time use of the Budget Stabilization Fund balance in Fiscal Year 2017.

The Governor's proposal estimated that if State General Funds spending was left on "auto-pilot" in Fiscal Year 2017 (i.e., with no changes in law or other spending controls), State expenditures and transfers out would total $38,969 million, an amount $6,626 million above estimated Fiscal Year 2017 maintenance budget revenues.

The Governor's recommended budget proposal included changes from the estimated maintenance budget. The proposed Fiscal Year 2017 budget included increasing General State Aid for school districts, continuing the State's commitment to early childhood education and providing additional resources to the Department of Corrections to increase the number of correctional officers and meet the needs of the State's mentally ill inmates as required by court settlement.

The Governor's budget also identified several areas to reform and control spending, including making changes to the State's five pension systems, the health insurance plan for State employees, the social service delivery system, procurement of goods and services, and divestiture of the Thompson Center State Office Building in Chicago. For additional information regarding the Governor's budget, see the Fiscal Year 2017 Budget Book, available on the GOMB website (see APPENDIX F—WEBSITE INDEX).

After accounting for these changes, the remaining amount estimated to be needed to fund Fiscal Year 2017 General Funds State expenditures and transfers totaled $36,344 million. Transfers out to other State funds, including for GO Bond debt service, were projected to total $4,858 million.

The Governor proposed two paths to balance the Fiscal Year 2017 General Funds budget – "Working Together" or "Executive Management." Either plan, if enacted, would meet the State's constitutional requirement for a balanced budget. The Working Together approach is the Governor's preferred path to a balanced budget. First, enact structural reforms and transformations that reduce the cost of delivering government services and reduce the cost of doing business in Illinois with the goal of creating jobs and growing the State's economy. Then with those objectives accomplished, additional revenues would be affordable. State General Funds spending in Fiscal Year 2017 under this approach would total a maximum of $36,344 million. Alternatively, the Executive Management approach was that in the absence of reforms, the Governor proposed the enactment of legislation to give the Governor tools to establish reserves, reduce provider rates, adjust statutory transfers and continuing appropriations (except debt service), and reallocate balances from other State funds into the General Funds. State General Funds spending in Fiscal Year 2017 under this approach would have been as low as $32,818 million, depending on the actions taken. The estimated budget basis accounts payable in both of these paths at the end of Fiscal Year 2017 would total $7,400 million.

Spring 2016 Actions on the Fiscal Year 2017 Budget Proposal

As of May 31, 2016, no appropriations bills for spending for Fiscal Year 2017 had passed both chambers of the General Assembly. After this date, the Illinois Constitution requires that changes in law and appropriations with an immediate effective date require approval of 3/5ths of the members of each chamber rather than a simple majority prior to June 1.

As a result of the legislative leaders indicating that passage of a full year budget was not attainable until after the November general election, the Governor proposed a "bridge" Fiscal Year 2016 and Fiscal Year 2017 appropriations bill to keep government functioning. The "bridge" proposal included passage of a full year of Fiscal Year 2017 funding for elementary and secondary education, full-year authority to spend federal and other State funds outside of the General Funds for Fiscal Year 2016 and Fiscal Year 2017, capital appropriations for the State's road program and some of the State's other construction projects, limited Fiscal Year 2017 General Funds appropriations for critical State government operations (through December 31, 2016) tied to forgiveness of repayment of interfund borrowing, and full year appropriations for the State's debt service payments. On June 30, 2016, P.A. 99-523 and P.A. 99-524 were signed into law authorizing this agreed "bridge funding plan" to keep government functioning until the General Assembly and the Governor can come to agreement on a full Fiscal Year 2017 Budget.

The legislation permanently forgave the repayment of up to $454 million of interfund borrowing that would have been due in Fiscal Year 2017 and contained full other State and federal funds appropriations. It authorized the spending of an existing $275 million from the Budget Stabilization Fund, $97 million in funding for community colleges from the Personal Property Tax Replacement Fund, $701 million appropriated from the Commitment to Human Services Fund and $453 million from the Fund for the Advancement of Education, for purposes traditionally supported by the General Funds. In addition, the bridge funding plan included a new hospital assessment arrangement that will generate a larger share of federal ACA funding for the State and benefit the General Funds $150 million in Fiscal Year 2017. Public Act 99-523 also altered some of the requirements for Fiscal Year 2017 issuances of GO refunding Bonds and Build Illinois refunding bonds in order to allow the State to save an estimated $20 million on debt service costs in Fiscal Year 2017 through the issuance of refunding bonds. See "INTRODUCTION–AUTHORITY FOR ISSUANCE."

Fiscal Year 2017 Spending in Absence of a Budget. The State began Fiscal Year 2017 on July 1, 2016 without a fully enacted budget in place. As described above, certain State spending continues to occur in the absence of a full budget as it did in Fiscal Year 2016. The following summary outlines the estimated amounts of General Funds spending that will occur after July 1, 2016, but the State cannot predict the amount of future total spending in the absence of a budget.

- *Appropriations signed into law* – Public Act 99-524 included General Funds spending totaling approximately $7.2 billion on elementary and secondary education, $700 million on higher education and $500 million on State agency operations. Fiscal Year 2017 debt service payments on GO bonds from the GOBRI Fund were appropriated.
- *Continuing appropriations authorized by statute* –Approximately $6.9 billion in General Funds appropriations have been established for payments to the State's retirement systems in the absence of enacted appropriations. Additionally, certain spending related to some retired teacher health care and operations of the legislative and judicial branches will continue pursuant to continuing appropriations. In total, approximately $7.5 billion in spending is expected to occur through continuing appropriations.
- *Debt service and other statutory transfers to other State funds* –Approximately $2.35 billion in estimated General Funds transfers to the GOBRI Fund for debt service on GO Bonds (on average, less than $200 million per month) and approximately $2.5 billion in transfers to other State funds for other purposes, primarily the Local Government Distributive Fund and mass transit funding for the Regional Transportation Authority and for downstate transit systems, are projected to occur from the General Funds in Fiscal Year 2017 under existing State statutes.
- *Court Orders/Consent Decrees* –Court actions and consent decrees continue to require the State to continue to make payments in the absence of appropriations in Fiscal Year 2017 for costs such as State employee salaries, payments to Medicaid providers, and certain social service programs. In total, in the absence of a full enacted budget, approximately $13.5 billion in spending from the General Funds is expected to occur in Fiscal Year 2017 through these court orders, including up to approximately $7.0 billion on Medicaid-related costs. The State cannot predict with certainty how much spending in total might occur through these court orders, nor can the State predict if future court action might result in a different level of spending than is currently anticipated. See "LITIGATION–*State v. AFSCME.*"

Revised Fiscal Year 2017 Estimated Revenues. The State estimates that under current statutes, total General Funds revenues for Fiscal Year 2017 will total $32,194 million, an increase from Fiscal Year 2016 revenues of $1,821 million (6 percent). The State's three largest revenue sources, individual income tax, corporate income tax and State sales tax, are estimated to total $23,228 million, a net increase of an estimated $303 million or 1.3 percent when compared to Fiscal Year 2016 estimated revenues. Individual income taxes are forecasted to total $12,970 million, an $80 million (0.6 percent) increase from Fiscal Year 2016. Corporate income taxes are estimated to total $2,088 million, an increase of $116 million (5.9 percent) from Fiscal Year 2016. The estimate assumes the continued diversion of revenues to the Fund for the Advancement of Education and the Commitment to Human Services Fund as provided under current law (totaling an estimated $946 million).

Sales taxes are estimated to total $8,170 million, a $107 million, or 1.3 percent, increase. Other State source revenues are estimated to total $3,145 million and transfers in from other State funds are projected to total $1,704 million.

Federal revenues are projected to total $4,117 million, an increase of $1,452 million. This increase will depend on total Medicaid expenditures and the timing and ability of the State to make certain levels of payments to Medicaid service providers to qualify for the federal reimbursement.

Current Fiscal Year 2017 Estimated Expenditures. Total General Funds expenditures for Fiscal Year 2017 cannot be fully estimated at this time due to the lack of a fully enacted budget. As described above, estimated spending under appropriations, continuing appropriations, statutory transfers and court orders and consent decrees totals approximately $34.3 billion. Expenditures would exceed revenues by $2.1 billion absent any further action being taken by the General Assembly.

Additionally, areas for which the State has not provided appropriations at historic levels include General Revenue Fund payments to State employee health insurance providers, operational costs of certain State agencies, and social service programs that are not currently covered under a court order or consent decree. In addition, appropriations for higher education included in P.A. 99-524 are below historical levels. The State estimates that the Fiscal Year 2017 General Funds financial commitment of the State, if enacted at historic levels, could be up to $3.3 billion higher than currently projected which would exceed current revenue projections by $5.4 billion. State spending could be materially higher if additional funding was included for retroactive payments for unpaid bills carried over from Fiscal Year 2016. However, to reach these levels of spending, additional appropriations would need to be enacted.

Absent changes to the balance between General Funds revenues and expenditures, the State estimates that the backlog of bills held by the Comptroller and the agencies will grow significantly during Fiscal Year 2017 compared to Fiscal Year 2016 and payment delays to the State's vendors will be extended even without additional appropriations enacted as projected Fiscal Year 2017 expenditures exceed Fiscal Year 2017 revenue estimates.

The State can provide no assurance that spending reductions, revenue changes or additional appropriations will be passed by the General Assembly or signed into law by the Governor.

Current Fiscal Year 2017 Bill Payment Delays. Currently State agencies are only submitting vouchers for payment to the Comptroller for items that have valid annual appropriations, continuing appropriations, consent decrees or court orders, as described above. However, depending on the revenues available to make such payments, there may be delays in making those payments to the vendors. As of August 31, 2016, the Comptroller was holding $3.7 billion in unpaid General Funds vouchers and pending transfers. This amount does not include any vouchers in process at the State agencies or commitments for which the State does not have an appropriation or court order to make the payment. The Comptroller currently estimates that approximately $4.3 billion in additional bills are on hold at the State agencies, primarily payments owed to State employee health insurance providers. Absent changes to the current balance between General Funds revenues and expenditures, the State estimates that the backlog of bills held by the Comptroller and the agencies will grow significantly during the remainder of Fiscal Year 2017. The Governor is willing to work with the legislature on different options to reduce these liabilities in conjunction with an overall balanced budget agreement, including looking at financing options to address a portion of the backlog. Financing options would require legislative authorization.

COLLECTIVE BARGAINING

Approximately 93% of State employees are covered by collective bargaining agreements. As of May 31, 2016, the State completed negotiations with 18 labor organizations for successor collective bargaining agreements for the July 1, 2015-June 30, 2019 time period, covering approximately 5,000 employees. The State continues to negotiate with other labor organizations representing the remaining employees under the jurisdiction of the Governor. The State has entered into tolling agreements with several unions, including the American Federation of State, County and Municipal Employees ("AFSCME") (which represents approximately 83% of those State employees covered by collective bargaining agreements).

These agreements provide that neither party will implement a strike or lockout until they are at an impasse in negotiations.

After nearly a year of negotiations with AFSCME, on January 15, 2016, the State asked the Illinois Labor Relations Board (the "ILRB") to determine whether negotiations between the State and AFSCME are at an impasse. Until the ILRB has made its determination, the parties continue to operate under their statutory obligations. The parties are currently presenting their case to the ILRB.

ECONOMIC AND FISCAL POLICY REPORT: FY 2017–FY 2019

GOMB is required, pursuant to 20 ILCS 3005/7.3 et seq., to prepare annually and submit to the General Assembly an economic and fiscal policy report. Public Act 99-0854 moved up the required date of publication of this report from the third business day in January to November 15th and added additional reporting requirements, including two additional years of forecasts and review of fiscal policy options when budgetary shortfalls are projected. This report (the "Economic and Fiscal Policy Report") is intended to provide additional information on the State's economic and fiscal objectives and fiscal policy intentions for the upcoming fiscal year and succeeding four fiscal years, and is not a projection of the financial condition of the State for this period. 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 (see APPENDIX F—WEBSITE INDEX). The most recent Economic and Fiscal Policy Report was released on January 6, 2016. Under the assumptions used in creating the forecast shown in the January 2016 report, which was based on existing law assuming the General Assembly does not enact cost-saving structural reforms, discretionary spending reductions or new revenue, the State's bill backlog would increase significantly. The complete report is available at http://www.illinois.gov/gov/budget/Pages/PolicyReports.aspx. For a discussion of the State's current bill backlog, see above "—REVIEW OF FISCAL YEAR 2017 BUDGET MATTERS—*Current Fiscal Year 2017 Bill Payment Delays*."

GENERAL OBLIGATION INDEBTEDNESS

OUTSTANDING GENERAL OBLIGATION BONDS

The following Table 6 shows the statutory general obligation bond authorization, Table 7 shows the maturity schedule for all outstanding GO Bonds, giving effect to the issuance of the Bonds and the refunding of the Refunded Bonds, and Table 8 lists all GO Bonds outstanding as of August 31, 2016. The amount of outstanding GO Bonds shown in Tables 6 and 7 has not been reduced by the remaining amounts otherwise available in the GOBRI Fund.

TABLE 6
GENERAL OBLIGATION BOND AUTHORIZATION

Authorization Category	Amount Authorized[1]	Amount Issued[2]	Authorized Unissued	Amount Outstanding[3]
Multi-purpose	$31,374,577,443	$26,450,633,256	$4,923,944,187	$10,213,760,770
Special-purpose	250,000,000	246,095,000	3,905,000	0
Refunding Bonds[4]	4,839,025,000	9,271,676,126	1,225,950,000	3,613,075,000
Subtotal	**$36,463,602,443**	**$35,968,404,382**	**$6,153,799,187**	**$13,826,835,770**
Pension Bonds	17,562,348,300	17,166,000,000	396,348,300	12,000,000,000
Total	**$54,025,950,743**	**$53,134,404,382**	**$6,550,147,487**	**$25,826,835,770**
Currently Authorized less Refunding[5]	$49,186,925,743			

Source: Governor's Office of Management and Budget

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

2 Includes bond premiums.

3 Assumes the issuance of the Bonds, the refunding of the Refunded Bonds and the payment of November 1, 2016 maturities for which sufficient funds are currently on deposit in the GOBRI Fund.

4 The authorized unissued amount of refunding bonds is the difference between the amount authorized and the amount outstanding.

5 Section 2 of the Bond Act states that the aggregate authorized amount of GO Bonds (excluding authorization for refunding Bonds) is $49,317,925,743. The difference is attributable to expired authorization for Tobacco bonds and an approximate $19,000,000 miscalculation in Section 2 of the Bond Act.

TABLE 7
MATURITY SCHEDULE – GENERAL OBLIGATION BONDS
(Assumes the issuance of the Bonds, the refunding of the Refunded Bonds and the payment of debt service due on November 1, 2016 for which sufficient funds are currently on deposit in the GOBRI Fund.)

	October 2016 Bonds		General Obligation Capital Improvement and Refunding Bonds		General Obligation Pension Bonds		Total
Fiscal Year June 30	**Principal**	**Interest**	**Total Principal**	**Total Interest**	**Principal**	**Interest**	**Combined Total Debt Service**
2017[1]		$15,766,857	$ 943,091,341	$ 743,739,710	$ 1,025,000,000	$ 622,338,000	$ 3,334,169,051
2018	$ 92,510,000	63,776,050	920,002,806	712,647,932	1,050,000,000	568,615,500	3,251,266,239
2019	98,105,000	59,150,550	886,612,317	665,960,907	1,075,000,000	511,105,500	3,138,678,724
2020	108,240,000	54,245,300	860,041,629	626,288,104	225,000,000	449,550,000	2,160,879,734
2021	75,650,000	48,833,300	843,985,883	575,896,164	275,000,000	438,412,500	2,133,294,547
2022	85,900,000	45,050,800	820,727,410	522,360,613	325,000,000	424,800,000	2,092,888,023
2023	70,040,000	40,755,800	809,817,922	483,418,250	375,000,000	408,712,500	2,076,948,673
2024	65,755,000	37,253,800	774,333,968	432,872,154	450,000,000	390,150,000	2,047,356,122
2025	96,125,000	33,966,050	707,518,835	394,319,559	525,000,000	367,200,000	1,994,038,393
2026	109,280,000	29,159,800	707,530,000	353,787,533	575,000,000	340,425,000	1,976,742,533
2027	142,775,000	23,695,800	625,015,000	318,265,267	625,000,000	311,100,000	1,879,380,267
2028	132,305,000	16,557,050	635,045,000	282,813,350	700,000,000	279,225,000	1,897,083,350
2029	88,340,000	9,941,800	637,980,000	244,774,883	775,000,000	243,525,000	1,901,279,883
2030	75,495,000	5,524,800	568,735,000	210,972,333	875,000,000	204,000,000	1,858,707,333
2031	39,815,000	2,505,000	534,655,000	180,316,767	975,000,000	159,375,000	1,849,346,767
2032	22,810,000	912,400	468,750,000	152,407,740	1,050,000,000	109,650,000	1,780,807,740
2033	-	-	443,740,000	126,403,547	1,100,000,000	56,100,000	1,726,243,547
2034	-	-	475,340,000	99,520,587	-	-	574,860,587
2035	-	-	421,440,000	74,668,160	-	-	496,108,160
2036	-	-	323,200,000	51,426,300	-	-	374,626,300
2037	-	-	275,200,000	35,932,500	-	-	311,132,500
2038	-	-	220,200,000	22,183,200	-	-	242,383,200
2039	-	-	188,200,000	11,161,400	-	-	199,361,400
2040	-	-	41,200,000	3,680,000	-	-	44,880,000
2041	-	-	41,200,000	1,840,000	-	-	43,040,000
Total	$ 1,303,145,000	$487,095,157	$ 14,173,562,111	$7,327,656,960	$12,000,000,000	$5,884,284,000	$39,385,503,071

Source: Governor's Office of Management and Budget

Note: Interest on Build America Bonds is shown gross of the 35% federal subsidy due to the federal budget sequestration.

[1] Includes all debt service paid or payable during fiscal year 2017. The following table provides information regarding the portion of the principal maturing during fiscal year 2017 which has already been paid:

	Capital Improvement and Refunding	Pension	Total Principal
Total Principal	$14,173,562,111	$12,000,000,000	$26,173,562,111
Less: Current Maturities Paid to Date and November 1, 2016 maturities for which sufficient funds are currently on deposit in the GOBRI Fund	346,726,341	-	346,726,341
Outstanding Principal Net of Maturities Paid to Date	$13,826,835,770	$12,000,000,000	$25,826,835,770

TABLE 8
OUTSTANDING GENERAL OBLIGATION BONDS
(Assumes the issuance of the Bonds and the refunding of the Refunded Bonds)

Par[1]	Bond	Series	Dated Date
$1,303,145,000	General Obligation Refunding Bonds	Series October 2016	November 2, 2016
550,000,000	General Obligation Bonds	Series June 2016	June 29, 2016
480,000,000	General Obligation Bonds	Series January 2016	January 26, 2016
750,000,000	General Obligation Bonds	Series May 2014	May 8, 2014
250,000,000	General Obligation Bonds	Series April 2014	April 17, 2014
1,025,000,000	General Obligation Bonds	Series February 2014	February 13, 2014
350,000,000	General Obligation Bonds	Series December 2013 (Taxable)	December 19, 2013
1,300,000,000	General Obligation Bonds	Series June 2013	July 10, 2013
450,000,000	General Obligation Bonds	Series A of April 2013	April 10, 2013
350,000,000	General Obligation Bonds	Series B of April 2013 (Taxable)	April 10, 2013
50,000,000	General Obligation Bonds	Series September 2012	September 25, 2012
1,797,740,000	General Obligation Refunding Bonds	Series May 2012	May 8, 2012
575,000,000	General Obligation Bonds	Series March 2012	March 27, 2012
525,000,000	General Obligation Bonds	Series A of January 2012	January 20, 2012
275,000,000	General Obligation Bonds	Series B of January 2012 (Taxable)	January 20, 2012
3,700,000,000	General Obligation Bonds	Series February 2011 (Pension)	March 10, 2011
900,000,000	General Obligation Bonds	Series 2010-5 (BABs)	July 21, 2010
300,000,000	General Obligation Bonds	Series 2010-4 (BABs)	July 1, 2010
700,000,000	General Obligation Bonds	Series 2010-3 (BABs)	April 26, 2010
300,000,000	General Obligation Bonds	Series 2010-2 (BABs)	April 26, 2010
56,000,000	General Obligation Bonds	Series March 2010 (Taxable)	April 26, 2010
1,501,300,000	General Obligation Refunding Bonds	Series February 2010	March 3, 2010
1,000,000,000	General Obligation Bonds	Series 2010-1 (BABs)	February 4, 2010
400,000,000	General Obligation Bonds	Series September 2009	September 23, 2009
150,000,000	General Obligation Bonds	Series April 2009	April 14, 2009
125,000,000	General Obligation Bonds	Series April 2008	May 1, 2008
329,000,000	General Obligation Refunding Bonds	Series June 2007B	June 27, 2007
108,000,000	General Obligation Bonds	Series June 2007A	June 26, 2007
150,000,000	General Obligation Bonds	Series April 2007	April 19, 2007
285,000,000	General Obligation Bonds	Series June 2006A	June 29, 2006
274,950,000	General Obligation Refunding Bonds	Series June 2006	June 29, 2006
325,000,000	General Obligation Bonds	Series January 2006	January 18, 2006
300,000,000	General Obligation Bonds	Series September 2005	September 29, 2005
315,000,000	General Obligation Bonds	Series April 2005	April 7, 2005
484,400,000	General Obligation Bonds	Series March 2004A	April 1, 2004
600,000,000	General Obligation Bonds	Series October 2003B (Variable)	October 30, 2003
10,000,000,000	General Obligation Bonds	Series June 2003 (Pension)	June 12, 2003
62,078,508	College Savings Bonds	Series October 2002	November 1, 2002
375,000,000	General Obligation Bonds	Series November 2001	November 1, 2001
375,000,000	General Obligation Bonds	Series August 2001	August 1, 2001
101,855,028.75	College Savings Bonds	Series October 2000	October 19, 2000
122,334,151.50	College Savings Bonds	Series November 1998	November 10, 1998
168,330,467.30	College Savings Bonds	Series November 1997	November 13, 1997

[1] Amounts are the original par value as of date of issue.

SHORT-TERM DEBT

Pursuant to the Illinois Constitution and the Short Term Borrowing Act, the Governor, Comptroller and Treasurer are authorized to borrow limited amounts on a short-term basis. See "STATE OF ILLINOIS—CONSTITUTIONAL PROVISIONS–*Constitutional Provisions Relating to Short-Term Borrowing*." The Short Term Borrowing Act constitutes an appropriation 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 State has no Short-Term Debt currently outstanding, and has not issued Short-Term Debt since July 2010.

VARIABLE RATE BONDS

The Series 2003B Bonds are the only variable rate general obligation bonds of the State and are currently outstanding in the aggregate principal amount of $600 million. The Series 2003B Bonds are supported by six separate direct pay letters of credit which will expire on November 27, 2016. On November 7, 2016 (the "Conversion Date") the Series 2003B Bonds will be subject to mandatory tender. The State anticipates that on the Conversion Date, the Series 2003B Bonds will be remarketed to four banks and the interest rate setting mechanism on the Bonds will be changed to either a LIBOR-based interest rate or a SIFMA-based interest rate, with a mandatory tender date at the end of the rate period, on or about November 7, 2018. The State expects to enter into continuing covenants agreements with each of the four banks with terms essentially the same as in the current reimbursement agreements.

The following Table 9 is a list of the amounts and the Sub-Series of the Series 2003B Bonds expected to be purchased on the Conversion Date.

TABLE 9
SERIES 2003B BONDS

AMOUNT	SUB-SERIES
$226,000,000	2003B-1
224,000,000	2003B-2
75,000,000	2003B-3
75,000,000	2003B-4

As the State's ratings on its general obligation bonds change, the interest rate on the Series 2003B Bonds also adjusts.

INTEREST RATE EXCHANGE AGREEMENTS

The State is a party to five separate interest rate exchange agreements originally dated October 1, 2003 (collectively, the "Agreements") to hedge the variable rate on the Series 2003B Bonds 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 are allocated among four separate counterparties (each a "Counterparty," and collectively, the "Counterparties"). The Agreements' notional amounts are identified to and amortize with the Series 2003B Bonds until their final maturity on October 1, 2033. Pursuant to Section 9(b) of the Bond Act, net payments under the Agreements are considered interest on the Series 2003B Bonds, which are 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 and present mark-to-market values for the Agreements.

TABLE 10
INTEREST RATE EXCHANGE AGREEMENTS
(As of September 15, 2016)

Counterparty	Notional Value	Fixed Rate Paid	Variable Rate Received	Counterparty Credit Rating (S&P/Fitch/ Moody's)	Mark-to-Market Value[1]
Barclays Bank PLC[2]	$ 54,000,000	3.89%	83.2% of 1M LIBOR	A- / A / A2	($ 13,355,885)
Barclays Bank PLC[3]	54,000,000	3.89%	81.32% of 1M LIBOR	A- / A / A2	(13,483,997)
Bank of America, N.A.	54,000,000	3.89%	(4)	A/A+/A1	(13,874,961)
JP Morgan Chase, N.A.	54,000,000	3.89%	(4)	A+ / AA- / Aa3	(13,874,961)
Deutsche Bank AG	384,000,000	3.89%	(4)	BBB+ / A- / Baa2	(98,666,391)
	$600,000,000				($153,256,195)

1 Each mark-to-market value was provided by the counterparty and has not been independently verified by the State.
2 Assumed from AIG Financial Products Corp.
3 Assumed from Merrill Lynch Capital Services, Inc.
4 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%.

The State entered into the Agreements as a means of lowering its borrowing costs when compared to fixed-rate bonds at the time of issuance and limiting interest rate risk inherent in variable-rate debt. The State may terminate the Agreements at any time. In addition, either the State or the Counterparty may terminate the related Agreement if the other party fails to perform under the terms of such Agreement or if the other party's credit rating is withdrawn, suspended or falls below specified ratings thresholds. Upon such early termination of an Agreement by the State or the Counterparty, the then-current mark-to-market value of the Agreement would become immediately due and payable by the State (if a negative amount) or by the Counterparty (if a positive amount), and in each case the Series 2003B Bonds would continue to bear interest at a variable rate. As of September 15, 2016, the estimated aggregate mark-to-market value for all of the Agreements is negative $153 million.

To reduce the risk of early termination of the Agreements, the State began negotiations in April 2016 with the Counterparties to novate some of the Agreements to Counterparties with higher credit ratings to amend the Agreements on terms more favorable to the State by lowering the ratings trigger applicable to the State's GO Bonds at which a Counterparty would have the right to terminate the respective Agreement. As of the date hereof, negotiations with the following Counterparties have been completed on the dates and with the terms listed below:

- *Deutsche Bank AG* (June 9, 2016): the ratings trigger applicable to the State was lowered from below "BBB" by S&P or "Baa2" by Moody's to below "BB+" by S&P or "Ba1" by Moody's.
- *JPMorgan Chase Bank, N.A.* (June 30, 2016): the ratings trigger applicable to the State was lowered from below "BBB" by S&P or "Baa2" by Moody's to below "BBB-" by S&P or "Baa3" by Moody's.
- *Barclays Bank PLC* (August 23, 2016): Barclays Bank PLC assumed the Agreement from AIG Financial Products Corp. via a novation and the ratings trigger applicable to the State was lowered from below "BBB" by S&P or "Baa2" by Moody's to below "BBB-" by S&P or "Baa3" by Moody's.
- *Barclays Bank PLC* (September 12, 2016): Barclays Bank PLC assumed the Agreement from Merrill Lynch Capital Services, Inc. via a novation and the ratings trigger applicable to the State

was lowered from below "BBB" by S&P or "Baa2" by Moody's to below "BBB-" by S&P or "Baa3" by Moody's.

- *Bank of America, N.A.* (September 28, 2016): the ratings trigger applicable to the State was lowered from below "BBB" by S&P or "Baa2" by Moody's to below "BBB-" by S&P and "Baa3" by Moody's.

The original agreement with each Counterparty in Table 10 included a "trigger swap," i.e., the variable rate received by each Counterparty was either 67% of one-month LIBOR when one-month LIBOR was greater than or equal to 2.5%, or SIFMA when one-month LIBOR was less than 2.5%. The original agreements for AIG Financial Products Corp. and Merrill Lynch Capital Services, Inc. have each been amended and restated in the novated Barclays Agreements to eliminate the "trigger swap" terms and restructure the floating rate so that such rate is now 83.2% and 81.32% of one-month LIBOR, respectively.

The Agreements expose the State to certain additional market and credit risks. Should the mark-to-market value of the Agreements become positive, the State may be exposed to the credit risk of the Counterparties. The State will be exposed to "basis risk" should the variable interest rate payable by the State on the Series 2003B Bonds exceed the variable interest rate payable by the Counterparties to the State pursuant to the Agreements. The State is also exposed to the risk of the bankruptcy of a Counterparty, in which event payments under the relevant Agreement may cease to be made to the State and any payment obligations between the State and the bankrupt Counterparty may be subject to the jurisdiction of the bankruptcy court.

The State has hired a qualified independent representative to assist the State in managing the risks in the State's swap portfolio.

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.

FUTURE FINANCINGS

The State continues to implement its 2009 $31 billion capital program. The State plans to issue approximately $480,000,000 of GO Bonds in November 2016 for new money capital expenditures via competitive bid. The State anticipates that such GO Bonds will mature in equal principal amounts over a term of up to 25 years. The State will continue to issue additional 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 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 short-term general obligation debt due within one year from its date of issuance under existing law.

REVENUE OBLIGATIONS

STATE REVENUE BONDS

Revenue obligations are either those obligations for which the State or an authority of the State dedicates a specific revenue source for debt service or those obligations 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. Debt service with respect to each of these obligations continues to be paid in a timely manner. The State's commitment is based upon various Illinois statutes and upon contractual arrangements with the issuers. A description of each State revenue bond program follows. Table 11 identifies the current level of State revenue bonds indebtedness.

BUILD ILLINOIS

The Build Illinois program funds initiatives in business development, infrastructure construction and replacement, education, and environmental protection. The Build Illinois Bonds are dedicated State tax revenue bonds. The current Build Illinois bond authorization is $6,246,009,000. The Build Illinois Bond Act (30 ILCS 425) contains restrictions on the issuance of Build Illinois Bonds similar to those contained in the Bond Act and described under "INTRODUCTION—AUTHORITY FOR ISSUANCE."

Build Illinois Bonds are direct, limited obligations of the State payable solely from and secured by an irrevocable, first priority pledge of and lien on moneys on deposit in the Build Illinois Bond Retirement and Interest Fund, a separate fund in the State Treasury. Such moneys are derived primarily from the State's share of sales tax receipts and certain tax revenues and other moneys transferred from the Capital Projects Fund, to the extent available. 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. Payments on these bonds are currently being made pursuant to appropriations enacted by Public Act 99-0524.

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. Fiscal Year 2017 payments on these bonds are being made pursuant to Public Act 99-0524. A new appropriation will be required for payments in Fiscal Year 2018.

CERTIFICATES OF PARTICIPATION

Public Act 93-839 provides that the State shall not enter into any third-party vendor or other arrangements relating to the issuance of certificates of participation or other forms of financing relating to the rental or purchase of office or other space, buildings, or land unless otherwise authorized by law. Prior to the passage of Public Act 93-839, the State had issued two series of certificates of participation for the acquisition of real property, $21.0 million in January 1995 and $17.7 million in May 1996. The proceeds of these certificates were used to finance the construction of correctional facilities. The certificates are payable from lease or installment purchase payments which are subject to annual appropriation and are not secured by a pledge of the full faith and credit of the State. Fiscal Year 2017 payments on these certificates are being made pursuant to Public Act 99-0524 and will be used for the July 1, 2017 final payment on these obligations.

TABLE 11
MATURITY SCHEDULE – STATE REVENUE BONDS
as of August 31, 2016

	Build Illinois Bonds		Civic Center Bonds		Certificates of Participation		Total State Revenue Bonds		
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Combined Total Principal	Combined Total Interest	Combined Total Debt Service
2017	$ 219,410,000	$110,300,913	$ 5,488,409	$ 8,946,278	-	$ 95,243	$ 224,898,409	$ 119,342,434	$ 344,240,843
2018	204,650,000	101,281,187	5,668,835	8,764,290	$3,140,000	95,243	213,458,835	110,140,720	320,459,555
2019	191,660,000	92,663,404	5,875,462	8,558,600	-	-	197,535,462	101,222,004	298,757,466
2020	175,615,000	84,337,190	6,103,026	8,328,380	-	-	181,718,026	92,665,570	274,383,596
2021	144,755,000	76,832,766	5,405,000	168,906	-	-	150,160,000	77,001,672	227,161,672
2022	155,215,000	70,774,126	-	-	-	-	155,215,000	70,774,126	225,989,126
2023	143,930,000	64,062,246	-	-	-	-	143,930,000	64,062,246	207,992,246
2024	136,735,000	57,820,076	-	-	-	-	136,735,000	57,820,076	194,555,076
2025	135,620,000	51,553,566	-	-	-	-	135,620,000	51,553,566	187,173,566
2026	133,770,000	45,469,705	-	-	-	-	133,770,000	45,469,705	179,239,705
2027	112,165,000	39,418,945	-	-	-	-	112,165,000	39,418,945	151,583,945
2028	90,665,000	34,187,213	-	-	-	-	90,665,000	34,187,213	124,852,213
2029	90,665,000	30,066,482	-	-	-	-	90,665,000	30,066,482	120,731,482
2030	82,560,000	25,933,251	-	-	-	-	82,560,000	25,933,251	108,493,251
2031	87,540,000	22,258,908	-	-	-	-	87,540,000	22,258,908	109,798,908
2032	81,540,000	18,241,815	-	-	-	-	81,540,000	18,241,815	99,781,815
2033	81,540,000	14,524,722	-	-	-	-	81,540,000	14,524,722	96,064,722
2034	81,540,000	10,791,379	-	-	-	-	81,540,000	10,791,379	92,331,379
2035	59,460,000	7,120,536	-	-	-	-	59,460,000	7,120,536	66,580,536
2036	59,460,000	4,576,618	-	-	-	-	59,460,000	4,576,618	64,036,618
2037	29,250,000	2,032,700	-	-	-	-	29,250,000	2,032,700	31,282,700
2038	16,750,000	773,850	-	-	-	-	16,750,000	773,850	17,523,850
2039	-	-	-	-	-	-	-	-	-
Total	$2,514,495,000	$965,021,598	$28,540,732	$34,766,454	$3,140,000	$190,486	$2,543,035,732	$999,978,538	$3,543,014,270

Note: Columns may not add due to rounding.

STATE AUTHORITY REVENUE BONDS

A description of revenue bond programs of State authorities follows. Table 12 identifies the current level of indebtedness for these State authority 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 and, to the extent such taxes are insufficient, are further secured by State sales tax revenues, subject to appropriation. Transfers of State sales tax revenues are subject to the prior claim for payments into the Build Illinois Fund. Public Act 96-898 provides additional financial support from the State for operations of MPEA in an amount up to $31.7 million annually until 2032. Fiscal Year 2017 payments on these bonds are being made pursuant to Public Act 99-0524.

ILLINOIS SPORTS FACILITIES AUTHORITY

The Illinois Sports Facilities Authority ("ISFA") is authorized to finance sports facilities within the City of Chicago. Debt issued by ISFA is an obligation of ISFA and is not backed by the full faith and credit of the State. The ISFA has four issues of outstanding revenue bonds, totaling $423.1 million in principal amount, which 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 certain State hotel tax revenues which 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. Fiscal Year 2017 payments on these bonds are being made pursuant to Public Act 99-0524.

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 substantially all of the payments under the Master Settlement Agreement ("MSA") between various states, including the State, and various cigarette manufacturers (the Participating Manufacturers or "PM").

The MSA calls for the PMs to make annual payments which are allocated among the various participating states. These funds had been used by the State primarily to fund Medicaid programs. Railsplitter purchased substantially all of the State's rights to 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. On May 20, 2016, the State received $80.9 million, and on August 2, 2016, the State received an additional $47.4 million, of Excess MSA Payments. 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. Such payments are not subject to appropriation. However, as a result of the Railsplitter bond financing, other revenues are being used to fund those portions of the Medicaid programs previously funded by the MSA payments now retained by Railsplitter. These revenues include amounts in the General Revenue Fund. In addition, Railsplitter has a priority claim on Illinois' share of the MSA payments. If those amounts should decline in future years, the State's share of any Excess MSA Payments will be correspondingly reduced.

TABLE 12
MATURITY SCHEDULE – STATE AUTHORITY REVENUE BONDS
As of August 31, 2016

	MPEA Expansion Project		**Sports Facilities Authority**		**Railsplitter Tobacco Settlement Authority**		**Total Authority Revenue Bonds**		
Fiscal Year	Principal	Interest[1]	Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total Debt Service
2017	$ 24,573,766	$ 153,352,232	$ 8,687,075	29,655,237	$ 84,700,000	$ 64,183,744	$ 117,960,841	$ 247,191,213	$ 365,152,054
2018	21,411,711	171,415,904	6,918,577	33,730,735	89,040,000	59,948,744	117,370,288	265,095,383	382,465,671
2019	30,998,835	189,886,045	7,157,123	35,927,690	93,620,000	55,496,744	131,775,958	281,310,478	413,086,436
2020	37,672,249	195,212,379	7,587,434	38,091,378	98,565,000	50,781,625	143,824,683	284,085,382	427,910,065
2021	76,362,835	169,520,080	7,998,976	40,426,337	103,900,000	45,606,963	188,261,811	255,553,379	443,815,190
2022	50,973,651	208,911,851	8,400,360	42,943,453	109,655,000	40,120,288	169,029,011	291,975,591	461,004,603
2023	105,847,495	169,034,763	8,799,047	45,649,516	107,260,000	34,089,263	221,906,541	248,773,541	470,680,083
2024	43,045,071	231,838,969	9,185,634	48,542,929	104,945,000	28,189,963	157,175,704	308,571,861	465,747,565
2025	45,998,283	228,886,104	9,500,244	51,723,069	103,455,000	21,630,900	158,953,527	302,240,073	461,193,600
2026	55,469,129	205,827,896	15,537,481	49,373,582	102,380,000	15,423,600	173,386,610	270,625,078	444,011,688
2027	95,643,545	177,354,218	48,410,000	20,538,313	101,275,000	9,280,800	245,328,545	207,173,330	452,501,875
2028	126,092,687	167,635,825	37,791,552	35,316,261	53,405,000	3,204,300	217,289,239	206,156,386	423,445,625
2029	131,355,321	162,257,229	40,260,210	37,329,053	-	-	171,615,531	199,586,281	371,201,813
2030	10,277,690	322,390,860	50,655,825	26,280,413	-	-	60,933,515	348,671,273	409,604,788
2031	10,860,954	323,490,721	73,580,000	8,200,500	-	-	84,440,954	331,691,221	416,132,175
2032	9,945,997	324,408,803	82,620,000	4,337,550	-	-	92,565,997	328,746,353	421,312,350
2033	9,143,844	325,214,581	-	-	-	-	9,143,844	325,214,581	334,358,425
2034	8,437,732	325,914,568	-	-	-	-	8,437,732	325,914,568	334,352,300
2035	7,827,216	326,524,334	-	-	-	-	7,827,216	326,524,334	334,351,550
2036	7,307,150	327,048,525	-	-	-	-	7,307,150	327,048,525	334,355,675
2037	6,855,622	327,498,678	-	-	-	-	6,855,622	327,498,678	334,354,300
2038	6,468,951	327,883,474	-	-	-	-	6,468,951	327,883,474	334,352,425
2039	6,150,523	328,204,152	-	-	-	-	6,150,523	328,204,152	334,354,675
2040	5,882,467	328,473,083	-	-	-	-	5,882,467	328,473,083	334,355,550
2041	18,441,328	315,918,328	-	-	-	-	18,441,328	315,918,328	334,359,657
2042	230,109,617	104,244,277	-	-	-	-	230,109,617	104,244,277	334,353,894
2043	39,138,330	295,218,096	-	-	-	-	39,138,330	295,218,096	334,356,425
2044	36,926,220	297,427,830	-	-	-	-	36,926,220	297,427,830	334,354,050
2045	35,084,253	299,269,297	-	-	-	-	35,084,253	299,269,297	334,353,550
2046	33,363,833	300,990,717	-	-	-	-	33,363,833	300,990,717	334,354,550
2047	80,696,212	253,659,332	-	-	-	-	80,696,212	253,659,332	334,355,544
2048	277,675,000	56,681,003	-	-	-	-	277,675,000	56,681,003	334,356,003
2049	291,970,000	42,384,674	-	-	-	-	291,970,000	42,384,674	334,354,674
2050	307,220,000	27,134,294	-	-	-	-	307,220,000	27,134,294	334,354,294
2051	40,251,739	294,101,865	-	-	-	-	40,251,739	294,101,865	334,353,604
2052	172,993,298	161,365,827	-	-	-	-	172,993,298	161,365,827	334,359,125
2053	153,154,550	178,704,450					153,154,550	178,704,450	331,859,000
Total	$2,651,627,104	$8,645,285,264	$423,089,538	$548,066,016	$1,152,200,000	$427,956,934	$4,226,916,640	$9,621,308,208	$13,848,224,851

Note: Columns may not add due to rounding.

[1] Interest for MPEA Expansion Project Bonds includes accreted principal amount on capital appreciation bonds.

MORAL OBLIGATION BONDS AND OTHER MORAL OBLIGATION COMMITMENTS

Currently, six entities in the State may issue moral obligation bonds. As of August 31, 2016, debt evidenced by moral obligation bonds is currently outstanding in the amount of $55.5 million. The moral obligation pledge generally provides that in the event the authority issuing moral obligation bonds determines that revenue available to the authority will be insufficient for the payment of principal and interest on such bonds during the next State fiscal period, the authority shall certify to the Governor the amount required to pay such principal and interest and any amounts withdrawn from bond reserve funds to pay principal and interest on moral obligation bonds. The Governor must then submit the amounts so certified to the General Assembly. However, the recommendations of the Governor for State appropriations are a matter of executive discretion. Thus, although the Governor is required to submit the certified amounts to the General Assembly, 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.

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 continue to be enacted. No assurance can be given that future requests for State appropriations 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. As of its June 30, 2015 valuation, College Illinois had an unfunded liability of $292 million. Should no additional prepaid tuition contracts be sold under the College Illinois program, actuaries estimate that the State will need to provide additional funds to College Illinois to support its obligations. These additional funds would need to be provided starting in 2025 and concluding in 2051 and, depending upon which actuarial assumptions are used, could total in excess of $684 million. For additional information, see ISAC's College Illinois website in APPENDIX F—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 IFA is authorized to issue up to $385 million in guarantees for loans by financial institutions to agriculture and agribusiness borrowers. The IFA currently maintains two reserve funds from which lump-sum payments may be made in the event of a default on any of these loans. As of August 31, 2016, the available balances in the reserve funds held by the IFA were $10.2 million and $7.9 million, respectively.

These reserve funds are backed by a continuing appropriation of the State's General Funds. As of August 31, 2016, the IFA loan programs secured $6.6 million in Illinois Agricultural Loans and $6.9 million in Illinois Farmer & Agribusiness Loans. In total, 85% of these two Loan Programs, or $11.5 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 this loan program.

PENSION AND OTHER POST EMPLOYMENT BENEFITS

Information relating to the State's funding for the Retirement Systems and other post-employment benefits, including the method of determining employer contributions, the actuarial methods and assumptions used by the Retirement Systems to calculate the actuarial value of assets and the actuarial accrued liability, actuarial assumptions, the net pension obligation of each Retirement System, the history of contributions to the Retirement Systems, the funded status and projections of funded status, a discussion of the 2010 legislation modifying the pension structure as well as a description of the post employment health, dental, vision and life insurance benefits for certain State retirees and the funding and annual cost of such benefits is described in APPENDIX E—PENSION AND OTHER POST EMPLOYMENT BENEFITS.

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 lawsuits.

N.B. v. Norwood

N.B. v. Norwood, 11-6866 (N.D.Ill.), filed in 2011 and amended in 2012, is a certified class action lawsuit alleging that the Illinois Department of Healthcare and Family Services (HFS) is not in compliance with the Early and Periodic Screening Diagnostic and Treatment requirement of the federal Medicaid statute for treatment of children's behavioral and mental health disorders. Additionally, the class alleges that HFS is violating the federal Americans with Disabilities Act and the Rehabilitation Act by failing to provide services for these children in most community-integrated settings.

In December 2013, the District Court denied HFS's Motion to Dismiss. In February 2014, the Court certified a class of "[a]ll Medicaid eligible children under the age of 21 in the State of Illinois: (1) who have been diagnosed with a mental health or behavioral disorder; and (2) for whom a licensed practitioner of the healing arts has recommended intensive home and community-based services to correct or ameliorate their disorders."

On August 18, 2015, HFS notified class counsel and the court that HFS would not agree to the proposed consent decree and presented an alternative State-wide plan for developing a Medicaid Behavioral Health Model. Class counsel asserted that there was a binding settlement agreement. Class counsel also indicated that, if HFS was not willing to settle, many plaintiffs may individually seek monetary damages against HFS under the Rehabilitation Act and will likely reinitiate the related Central District cases regarding damages. On November 19, 2015, the Magistrate Judge issued a recommendation to the District Court that the Class Counsel's motion to enforce the settlement agreement be denied. Class counsel has resumed sending HFS requests for services for individual class members which include references to monetary damages.

In early 2016, the parties resumed settlement discussions, which resulted in a proposed settlement agreement. On September 6, 2016, the district court preliminarily approved the proposed settlement. A fairness hearing is scheduled for December 20, 2016 to consider whether to grant final approval.

Rasho v. Walker

Rasho is a class-action lawsuit, filed in 2007, which challenges the constitutional adequacy of the mental health services provided statewide to offenders with a particular emphasis on those who are seriously mentally ill. The Department of Corrections ("DOC") currently has 11,374 offenders on the mental health caseload and 4,481 of those offenders are seriously mentally ill. In March 2012, Dr. Fred Cohen generated a report which identified various deficiencies in DOC's mental health services. Cohen surmised that DOC was deliberately indifferent to the needs of the seriously mentally ill population. As a result of that report, DOC began engaging settlement negotiations with the Plaintiffs, and ultimately agreed to be bound by an agreed order in anticipation of entering into a consent decree, requiring the DOC to change many of DOC practices including but not limited to filling mental health staffing vacancies, procuring inpatient care for the most seriously mentally ill offenders, and coming up with a comprehensive plan to improve the DOC mental health care system. The Agreed Order is essentially moot, as DOC ended consent decree negotiations. However, as part of the comprehensive plan previously agreed to by the then court-appointed monitor, and Plaintiffs, DOC established four levels of care: inpatient, residential, outpatient and crisis, and began making plans to provide care at each level, which included capital projects. Offenders in need of inpatient level of care need to be housed in a forensic hospital-like setting, the location is yet to be determined but discussions have centered on DHS' Elgin Mental Health Center. Offenders in need of residential treatment will be housed in residential treatment units (RTUs) - to be located at Dixon, Logan, IYC Joliet and Pontiac. In addition to serving the residential treatment population, IYC Joliet will also serve the sub-acute and behavioral management populations. Establishment of these levels of care and housing units requires extensive hiring and construction planning which has already started at each of the four residential treatment facilities.

On May 13, 2016, the judge approved the parties' settlement agreement. Under the settlement agreement (not a consent decree), the parties agreed that the Court would retain jurisdiction for a three-year period after a budget is approved to allow DOC time to (1) fully develop the four levels of care, (2) complete necessary capital projects, (3) hire and train requisite staff and, ultimately, (4) revamp DOC's entire mental health system and allow plaintiffs to reopen litigation in the event of non-compliance with the terms of the agreement.

STATE V. AFSCME, 2016 IL 118422 (ILL. 2016)

On March 24, 2016, the Illinois Supreme Court vacated an arbitration award that "ordered immediate payment of the 2% wage increase without regard to the existence of corresponding appropriations by the General Assembly."

ILLINOIS COLLABORATION ON YOUTH, ET AL., V. DIMAS, ET AL., COOK COUNTY CIRCUIT COURT

On May 4, 2016, Plaintiff Illinois Collaboration on Youth, along with other plaintiff provider organizations, filed suit against Governor Rauner and the directors of six state agencies, seeking declaratory and injunctive relief against Defendants for entering into and enforcing contracts without appropriations and alleging that the Governor's veto of appropriation bills on June 25, 2015 constituted an impairment of contract. On August 31, 2016, the circuit court granted the State's Motion to Dismiss pursuant to sovereign immunity and denied plaintiffs' Motion for Preliminary Injunction on September 13, 2016. Plaintiffs appealed this ruling to the First District Appellate Court.

PENSION REFORM LITIGATION

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

On November 21, 2014, the circuit court in Sangamon County entered an order declaring that PA 98-0599 is unconstitutional and void in its entirety, and entered a permanent injunction to prevent any implementation of the Act. On November 26, 2014, the Attorney General filed a notice to appeal that ruling to the Illinois Supreme Court. On May 8, 2015, the Illinois Supreme Court unanimously affirmed the ruling of the circuit court that PA 98-0599 was an unconstitutional violation of the pension protection clause of the Illinois Constitution, and upheld the permanent injunction preventing its enforcement. The State did not file an appeal to the U.S. Supreme Court with respect to the Illinois Supreme Court's determination regarding the constitutionality of PA 98-0599.

RULING BY THE ILLINOIS SUPREME COURT IN *KANERVA V. WEEMS*

On July 3, 2014, the Illinois Supreme Court ruled that the health insurance premium subsidies that the State pays for retired state employees are a benefit of membership in a pension or retirement system and are subject to Article XIII, Section 5, of the Illinois Constitution. That ruling led to a class-action settlement of five related cases that had challenged the constitutionality of Public Act 97-695, a law passed in 2012, which allowed the State to change the level of contributions that retirees were required to make toward the cost of their health insurance coverage. As a result of the Supreme Court's ruling and the class-action settlement, the premium amounts that the State could have collected from retirees as a result of the changes to contribution levels permitted under Public Act 97-695 will not be collected, and approximately $44.4 million in health insurance premium payments that had been collected from retirees in Fiscal Year 2014, together with approximately $18.6 million in such payments that had been collected in the first few months of Fiscal Year 2015, will be refunded.

RATINGS

Moody's has assigned a rating of "Baa2" with a Negative Outlook to the Bonds, Fitch has assigned a rating of "BBB+" to the Bonds with a Negative Rating Watch, and S&P has assigned a rating of "BBB" with a Negative Outlook to the Bonds. Such Negative Outlook and Negative Rating Watch qualifiers generally indicate that a rating agency will consider a downgrade of its rating in the future, and the related rating report generally indicates the factors such rating agency may consider when assessing the rating as well as, in some cases, the time period over which the rating agency expects to re-evaluate the rating. See "CERTAIN INVESTMENT CONSIDERATIONS—Investment Considerations Relating to the Financial Condition of the State—Ratings". Moody's and S&P are expected to assign ratings of "A2" (Stable Outlook) and "AA" (Stable Outlook), respectively, to the Insured Bonds, contingent upon the issuance of the Policy by AGM at the time of the delivery of the Insured Bonds.

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

The State will provide appropriate periodic credit information necessary for maintaining ratings on the Bonds to the rating agencies. Except as may be required by the Undertakings 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 could have a material adverse effect on the availability of a market for the Bonds or the prices at which the Bonds may be resold.

UNDERWRITING

The Bonds are being purchased by an underwriting group (the "Underwriters" and each an "Underwriter") led by Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC pursuant to a Contract of Purchase by and among the Underwriters and the State at a purchase price of $1,393,354,827.21, which purchase price results in an Underwriters' compensation of $4,925,732.29.

The Underwriters have agreed to purchase all of the Bonds if any of the Bonds are purchased. The Underwriters have agreed to make a bona fide public offering of the Bonds at not in excess of the public offering prices set forth on the inside cover of this Official Statement.

In the ordinary course of their business, certain Underwriters and some of their affiliates have engaged and, in the future, may engage in investment banking and/or commercial banking transactions with the State.

The following information has been provided by certain of the Underwriters for inclusion in this Official Statement.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. In the various course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the State (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the State. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Jefferies LLC ("Jefferies"), an Underwriter of the Bonds, has entered into an agreement (the "Jefferies Agreement") with E*TRADE Securities LLC ("E*TRADE") for the retail distribution of municipal securities. Pursuant to the Jefferies Agreement, Jefferies will sell the Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

Loop Capital Markets LLC ("Loop Capital Markets"), an Underwriter of the Bonds, has entered into a distribution agreement with UBS Financial Services Inc. ("UBSFS") for the retail distribution of certain securities offering at the original issue prices. Pursuant to the distribution agreement, UBSFS will purchase Bonds from Loop Capital Markets at the original issue prices less a negotiated portion of the selling concession applicable to any Bonds that the firm sells.

PNC Bank, National Association currently has, and from time to time in the future may have, banking or other credit relationships with the State. PNC Capital Markets LLC is acting as an Underwriter of the Bonds. PNC Capital Markets LLC and PNC Bank, National Association are both wholly owned subsidiaries of The PNC Financial Services Group, Inc.

Academy Securities, Inc., an Underwriter of the Bonds, has entered into Distribution Agreements with The Vanguard Group, Wedbush Securities Inc., TD Ameritrade Inc., BNY Mellon Capital Markets LLC, World First Financial Services, Inc., Commonwealth Financial Network, Winslow Evans and Crocker Inc., Securevest Financial Group, Moors & Cabot, Inc., Crews and Associates, Inc., Douglas & Co. Municipals, Inc., Ross, Sinclaire & Associates, Inc., SWBC Investment Services LLC, W.H. Mell Associates, Inc., Intercoastal Capital Markets, Inc., NBC Securities, Inc., Aegis Capital Corp., MCAP, LLC, Maxim Group LLC, and Shearson Financial Services, LLC for the retail distribution of certain municipal securities at the original issue prices. Pursuant to these Distribution Agreements, Academy Securities may share a portion of its underwriting compensation with these firms.

TAX MATTERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Concurrently with the delivery of the Bonds, the Verification Agent will deliver a verification report stating that it has verified the mathematical accuracy of certain computations relating to the sufficiency of the principal of and interest on the Government Securities to provide for the timely payment of the principal or respective redemption prices of and interest on the Refunded Bonds as they become due. Such computations will be based solely on assumptions and information supplied by the Underwriters on behalf of the State. The Verification Agent will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations are based and, accordingly, not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the anticipated outcome.

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 MSRB pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the SEC under the 1934 Act. The proposed form of the Undertaking is included as APPENDIX D to this Official Statement.

In the previous five years, there have been certain failures by the State in connection with its continuing disclosure filings.

- For Fiscal Years 2011 through 2014, the annual financial information for the State's Civic Center Bonds (Special State Obligation Bonds) Series 1990B, 1991, 1998 and 2000 omitted tables titled "Revenues and Cash Expenditures-General Revenue Fund" and "Cash Expenditures by Category and Function-General Revenue Fund." A Failure to File Annual Financial Information was filed on EMMA on December 15, 2015, noting the correction.
- For Fiscal Years 2011 through 2014, the annual financial information for the State's Certificates of Participation (Bureau of the Budget) Series 1995A and 1996A; the State's Participations (Acting by the Department of Central Management Services) Series 1996 (For Benefit of Environmental Protection Agency) and Series 1999 (For Benefit of the Illinois Department of Transportation); the State's Participations (Acting by the Department of Central Management Services) Series 1996 (For Benefit of the Department of Public Aid); and certain series of the State's General Obligation Bonds omitted some or all of the tables titled "Cash Expenditures by Category–Road Fund," "General Funds Appropriations" and "Illinois School Enrollment." A Failure to File Annual Financial Information was filed on EMMA on December 30, 2015, noting the correction.
- The State failed to submit a timely event notice describing a June 6, 2013 downgrade by Moody's for CUSIP numbers relating to those series of Build Illinois Bonds rated by Moody's. The notice of this rating change by Moody's was filed on EMMA on October 14, 2014.

There have also been numerous rating actions reported by the rating agencies affecting the municipal bond insurance companies, some of which had insured obligations previously issued by the State. In some instances, event notices were not timely filed in respect of these ratings changes.

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

A failure by the State to comply with the Undertaking will not constitute a default under the Bond Sale Order, adopted by the Governor and the Director authorizing the issuance of the Bonds (the "Bond Sale Order"), and beneficial owners of the Bonds are limited to the remedies described in the Undertaking. A failure by the State to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

CERTAIN LEGAL MATTERS

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

AUDITED FINANCIAL STATEMENTS

The State Auditor General has performed an audit of the basic financial statements that accompany each CAFR in accordance with generally accepted auditing standards in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. His unqualified opinion appears at the beginning of the financial section of each CAFR. The State Auditor General has not been requested to update the information contained in the financial statements in the Fiscal Year 2015 CAFR which has been filed with EMMA and is referred to in "STATE FINANCIAL INFORMATION."

A portion of the TBFR not included in this Official Statement was audited by an independent accounting firm in accordance with accounting practices prescribed or permitted by the State of Illinois State Comptroller Act. Tables 3 and 4, which appear under "STATE FINANCIAL INFORMATION," Table A-4, which appears in APPENDIX A—CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS, and Table G-1, which appears in APPENDIX G—ACCOUNTING PRACTICES USED

IN STATE FINANCIAL INFORMATION, are not part of the financial statements in the TBFR that were the subject of such audit.

MUNICIPAL ADVISOR

Public Resources Advisory Group, New York, New York, is serving as Municipal Advisor to the State in connection with the issuance of the Bonds. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The Municipal Advisor is not obligated to undertake to make an independent verification of, or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

ADDITIONAL INFORMATION

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

MISCELLANEOUS

The State has authorized the distribution of this Official Statement.

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

STATE OF ILLINOIS

By: /s/ Tim Nuding
Director, Governor's Office of Management and Budget

APPENDIX A

CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS

PART I: MEASURES OF DEBT BURDEN

Tables A-1 through A-3 show various measures of the relative burden of the State's general obligation debt and debt service.

TABLE A-1
RATIO OF GENERAL OBLIGATION DEBT SERVICE
TO TOTAL GENERAL AND ROAD FUND APPROPRIATIONS
FISCAL YEARS 2012-2016

Fiscal Year	Total Appropriations ($ In Millions)	Capital Improvement Bonds Debt Service % of Appropriations[2]	Pension Bonds Debt Service % of Appropriations
2012[1]	36,106	3.75%	4.37%
2013[1]	36,836	3.82%	4.24%
2014[1]	38,319	3.91%	4.26%
2015[1]	37,579	4.65%	4.78%
2016[3]	33,857	5.03%	4.01%

Source: Illinois Office of the Comptroller and the Governor's Office of Management and Budget.

[1] Includes aggregate appropriations from the General Funds and the Road Fund for Fiscal Years 2012 through 2015.

[2] Does not include annual amounts paid to the trustee for the Initial Interest Requirement for the Series October 2003 bonds.

[3] FY2016 Total Appropriations include enacted Road Fund appropriations and General Funds enacted appropriations, continuing appropriations and spending authority established pursuant to court orders or consent decrees from the General Funds.

TABLE A-2
RATIO OF GENERAL OBLIGATION DEBT OUTSTANDING
TO ILLINOIS PERSONAL INCOME
FISCAL YEARS 2012-2016[1]

End of Fiscal Year	Illinois Personal Income ($ In Billions)	Capital Improvement and Refunding Bonds % of Personal Income	Pension Bonds[2] % of Personal Income
2012	593.0	2.04%	2.63%
2013	599.1	2.03%	2.45%
2014	613.7	2.46%	2.25%
2015	636.3	2.22%	2.00%
2016	653.1	2.18%	1.84%

Source: U.S. Department of Commerce, Bureau of Economic Analysis and Governor's Office of Management and Budget.

[1] Current data as of August 31, 2016.

[2] Includes 2003, 2010 and 2011 pension funding bonds.

TABLE A-3
GENERAL OBLIGATION DEBT PER CAPITA – ILLINOIS
FISCAL YEARS 2012-2016[1]

	2012	2013	2014	2015	2016
Population (in Thousands)	12,874	12,891	12,881	12,860	12,846
Capital Improvement and Refunding Bonds	$ 990	$ 945	$1,171	$1,100	$1,109
Pension Bonds[2]	$1,264	$1,139	$1,071	$ 988	$ 934

Source: U.S. Census Bureau and Governor's Office of Management and Budget.

1 Current data as of August 31, 2016.

2 Includes 2003, 2010 and 2011 pension funding bonds.

TABLE A-4
10 YEAR HISTORY OF RECEIPTS, APPROPRIATIONS AND WARRANTS
($ in millions)

Fund Group	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
CASH RECEIPTS										
General Funds	$26,181	$27,231	$30,047	$29,883	$26,424	$29,548	$31,886	$34,332	$34,580	$32,872
Highway Funds	3,859	3,882	4,015	4,157	4,480	4,403	4,256	4,094	4,225	4,538
Special State Funds	13,196	14,882	15,628	15,137	19,570	22,145	16,961	19,334	21,574	24,701
Bond Financed Funds	1,198	269	181	152	3,489	1,191	2,145	2,038	4,227	0
Debt Service Funds[1]	404	451	118	117	1,840	572	2,595	734	835	798
Federal Trust Funds	3,683	3,961	3,964	4,483	4,949	5,095	5,274	4,970	5,148	4,856
Revolving Funds	495	515	563	475	525	545	627	539	618	534
State Trust Funds	3,655	3,365	3,658	3,360	3,598	4,106	4,335	4,535	4,593	2,614
TOTAL, CASH RECEIPT	**$52,671**	**$54,556**	**$58,174**	**$57,764**	**$64,875**	**$67,605**	**$68,079**	**$70,576**	**$75,800**	**$70,913**
APPROPRIATIONS										
General Funds	$24,517	$26,016	$27,538	$30,280	$27,198	$26,079	$29,584	$30,848	$32,146	$31,799
Highway Funds	6,163	7,106	7,225	9,644	9,219	8,826	8,888	8,284	8,387	8,093
Special State Funds	16,706	18,268	18,984	19,416	22,566	24,488	23,925	28,679	31,649	33,710
Bond Financed Funds	3,902	3,176	2,102	3,765	18,750	17,420	15,372	13,948	11,387	9,882
Debt Service Funds[1]	3,274	3,259	4,528	3,514	5,942	4,617	5,371	3,545	3,600	4,285
Federal Trust Funds	5,834	5,894	5,966	8,158	10,377	10,429	9,479	8,026	8,160	8,058
Revolving Funds	904	820	812	802	895	896	946	981	953	905
State Trust Funds	658	671	616	620	743	737	750	857	931	638
TOTAL, APPROPRIATIONS	**$61,958**	**$65,210**	**$67,771**	**$76,199**	**$95,690**	**$93,492**	**$94,315**	**$95,168**	**$97,213**	**$97,370**
WARRANTS ISSUED										
General Funds	$24,103	$25,500	$27,158	$29,774	$26,301	$25,447	$29,209	$30,293	$31,479	$30,763
Highway Funds	3,375	3,718	3,622	3,943	4,003	3,686	3,836	3,598	3,626	3,728
Special State Funds	13,307	14,394	15,908	15,576	16,785	17,474	17,808	21,079	22,512	25,285
Bond Financed Funds	894	621	286	161	1,328	1,969	2,134	2,655	2,394	2,226
Debt Service Funds[1]	3,267	3,237	4,452	3,432	5,875	4,596	5,187	3,330	3,589	4,050
Federal Trust Funds	3,835	3,905	3,981	4,278	5,254	5,258	5,090	4,969	5,061	4,781
Revolving Funds	596	640	667	642	677	655	685	716	704	681
State Trust Funds	3,202	3,086	3,329	3,224	4,207	4,331	3,924	4,173	4,298	2,257
TOTAL, WARRANTS ISSUED	**$52,579**	**$55,101**	**$59,403**	**$61,030**	**$64,430**	**$63,416**	**$67,873**	**$70,813**	**$73,663**	**$73,771**

Source: Illinois Office of the Comptroller, Traditional Budgetary Financial Report, Fiscal Year 2015; unaudited

[1] Includes the General Obligation Bond Retirement and Interest Fund.

TABLE A-5
CASH RECEIPTS AND DISBURSEMENT[1] – GENERAL FUNDS [2]
FISCAL YEARS 2012-2016
($ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Available Balance, Beginning	**$ 469**	**$ 40**	**$ 154**	**$ 74**	**$ 621**
Cash Receipts					
State Revenues					
Income Tax	$17,973	$19,715	$19,806	$18,119	$14,862
Sales Tax	7,226	7,355	7,676	8,030	8,063
Public Utility Tax	995	1,033	1,013	1,006	926
Cigarette Tax	354	353	353	353	353
Inheritance Tax	235	293	276	333	306
Liquor Gallonage Tax	164	165	165	167	170
Insurance Tax & Fees	345	334	333	353	398
Corporate Franchise Tax	192	205	203	211	207
Investment Income	21	20	20	24	24
Intergovernmental Transfers	244	244	244	244	244
Other	501	504	624	735	574
Total, State Revenues	$28,250	$30,221	$30,713	$29,576	$26,127
Federal Revenues					
Medicaid & Social Services	$ 3,682	$ 4,154	$ 3,903	$ 3,331	$ 2,665
Transfers In					
From Other State Funds[3]	$ 1,369	$ 1,953	$ 2,152	$ 2,981	$ 1,581
Total Revenues	**$33,301**	**$36,328**	**$36,768**	**$35,888**	**$30,373**
Interfund Borrowing	$496	$ -	$ -	$ 454	$0
Total Cash Receipts[4]	**$33,797**	**$36,328**	**$36,768**	**$36,342**	**$30,373**
Cash Disbursements					
Expenditures for Appropriations					
Operations	$ 9,202	$ 9,889	$ 9,721	$10,643	$ 7,040
Awards and Grants	20,063	20,881	21,079	20,998	19,878
Permanent Improvements	5	9	6	7	5
Refunds	12	6	5	0	0
Vouchers Payable Adjustment	87	(117)	1,129	(459)	(888)
Prior Year Adjustments	(88)	(21)	(60)	(12)	(12)
Transfers Out					
Debt Service Funds [5]	2,071	2,103	2,258	2,094	1,979
Other State Funds [3]	2,874	3,464	2,710	2,522	2,746
Total Cash Disbursements	**$34,226**	**$36,214**	**$36,848**	**$35,794**	**$30,748**
Cash Balance, Ending	**$ 40**	**$ 154**	**$ 74**	**$ 621**	**$ 246**

Source: Illinois Office of the Comptroller.
1 May not add due to rounding.
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 2003, 2010 and 2011 pension funding bonds.

TABLE A-6
CASH RECEIPTS AND DISBURSEMENTS[1] – ROAD FUND
FISCAL YEARS 2012-2016
($ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Available Balance, Beginning	**$ 710**	**$ 789**	**$ 825**	**$ 915**	**$ 916**
Cash Receipts					
State Revenues					
Motor Vehicle & License Fees	756	742	769	783	779
Certificates of Title	79	79	81	86	87
Property Sales (City & County)	68	66	91	142	125
Miscellaneous	54	43	62	74	76
Total, State Revenues	$ 957	$ 930	$1,003	$1,085	$1,068
Federal Revenues	1,610	1,485	1,503	1,721	1,537
Transfers In					
Motor Fuel Fund	297	290	296	289	307
Other Funds	22	0	0	0	0
Total Cash Receipts	$2,887	$2,705	$2,803	$3,095	$2,913
Cash Disbursements					
Expenditures for Appropriations	2,437	2,389	2,332	2,478	2,332
Prior Year Adjustments	(2)	(1)	(1)	(3)	
Transfers Out					
Debt Service Funds [2]	333	359	359	347	334
Other State Funds [3]	39	21	23	271	30
Total Cash Disbursements	$2,807	$2,669	$2,713	$3,093	$2,695
Cash Balance, Ending	$ 789	$ 825	$ 915	$ 916	$1,134

Source: Illinois Office of the Comptroller.

1 Based on information from the Office of the Comptroller.

2 Reflects debt service on GO Bonds.

3. FY 2015 includes Fund Reallocation transfers to the General Revenue Fund of $250 million.

PART III: 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. 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-7 shows Illinois has a historically higher per capita GDP than the Great Lakes Region and the United States. Table A-8 shows the distribution of Illinois non-agricultural employment by industry sector.

TABLE A-7
PER CAPITA REAL GDP (CHAINED 2009 DOLLARS)
CALENDAR YEARS 2011-2015

	2011	2012	2013	2014	2015
United States	$47,586	$48,156	$48,396	$49,091	$49,844
Illinois	51,172	52,264	51,812	52,359	53,640
Great Lakes Region	45,038	45,715	45,917	46,749	47,566

Source: Bureau of Economic Analysis, current data as of August 31, 2016.

TABLE A-8
NON-AGRICULTURAL PAYROLL JOBS BY INDUSTRY
CALENDAR YEAR 2015
(Thousands)

Industry Employment Sector	Illinois	% of Total	U.S.	% of Total
Financial Activities	380	6.4%	8,124	5.7%
Manufacturing	581	9.8%	12,318	8.7%
Trade, Transportation and Utilities	1,201	20.1%	26,920	19.0%
Leisure and Hospitality	576	9.7%	15,128	10.7%
Education and Health Services	899	15.1%	22,055	15.5%
Mining, Logging, Information and Other Services	363	6.1%	9,195	6.5%
Government	830	13.9%	22,007	15.5%
Professional and Business Services	918	15.4%	19,672	13.9%
Construction	213	3.6%	6,446	4.5%
Total	**5,961**	**100.0%**	**141,865**	**100.0%**

Source: Bureau of Labor Statistics, August 31, 2016. Both State and National data are seasonally adjusted.

Illinois ranks prominently among states for agricultural activity and exports. Table A-9 summarizes key agricultural production statistics including rank among all states in 2015.

TABLE A-9
AGRICULTURAL EXPORTS
CALENDAR YEAR 2015
($ in Millions)

Agricultural Exports	U.S. Total	Illinois Share	% of U.S.	Rank
All Commodities	$150,015	$9,308	6.2%	3
Soybeans	23,850	3,393	14.2%	1
Corn	10,589	1,710	16.1%	1
Feeds	10,251	1,383	13.5%	1
Grain Products	3,698	413	11.2%	1

Source: U.S. Department of Agriculture, Economic Research Service, current data as of August 31, 2016.

Per capita income in Illinois is greater than the average in both the United States and the Great Lakes Region. Table A-10 presents per capita income comparisons, and Table A-11 shows unemployment rate comparisons for the United States, Illinois and its metropolitan areas.

TABLE A-10
PER CAPITA PERSONAL INCOME
CALENDAR YEARS 2011-2015

	2011	2012	2013	2014	2015	2015 Rank
Illinois	44,303	46,067	46,477	47,643	49,471	**16**
United States	42,453	44,266	44,438	46,049	47,669	--
Ten Most Populous States:						
New York	51,598	53,571	53,606	55,611	57,705	1
California	44,852	47,614	48,125	49,985	52,651	2
Illinois	**44,303**	**46,067**	**46,477**	**47,643**	**49,471**	**3**
Pennsylvania	44,018	45,781	46,028	47,679	49,180	4
Texas	41,235	43,505	43,807	45,669	46,745	5
Florida	40,538	41,249	41,309	42,737	44,101	6
Ohio	38,807	40,329	40,749	42,236	43,478	7
Michigan	37,343	38,652	39,197	40,740	42,427	8
North Carolina	36,622	38,655	37,774	39,171	40,656	9
Georgia	36,588	37,254	37,596	38,980	40,551	10
Great Lakes States:						
Illinois	44,303	46,067	46,477	47,643	49,471	**1**
Wisconsin	40,837	42,463	42,737	44,186	45,617	2
Ohio	38,807	40,329	40,749	42,236	43,478	3
Michigan	37,343	38,652	39,197	40,740	42,427	4
Indiana	36,357	37,987	38,291	39,578	40,998	5

Source: U.S. Department of Commerce, Bureau of Economic Analysis. Current data as of August 31, 2016.

TABLE A-11
UNEMPLOYMENT RATE (%)
CALENDAR YEARS 2011-2015

	2011	2012	2013	2014	2015
United States	8.9	8.1	7.4	6.2	5.3
Illinois	9.7	9.0	9.1	7.1	5.9
Bloomington-Normal MSA	6.8	6.5	6.8	5.5	4.9
Carbondale-Marion MSA	8.5	8.2	8.5	6.7	6.0
Champaign-Urbana MSA	7.8	7.3	7.5	6.0	5.2
Chicago-Naperville-Elgin MSA	9.9	9.1	9.1	7.1	5.8
Danville MSA	9.9	9.2	10.6	8.4	7.1
Davenport-Moline-Rock Island MSA	7.4	6.9	7.0	6.1	5.6
Decatur MSA	10.0	9.9	11.4	8.5	7.1
Kankakee MSA	11.4	10.3	10.4	7.9	6.8
Peoria MSA	8.6	7.7	9.0	7.0	6.5
Rockford MSA	11.8	10.4	10.5	8.1	7.0
Springfield MSA	7.4	7.2	7.4	5.8	5.2

Source: U.S. Department of Labor, Bureau of Labor Statistics, August 31, 2016.

Note: National data is seasonally adjusted, but State and local data is not seasonally adjusted.

Illinois is the nation's fifth most populous state.

TABLE A-12
POPULATION
ILLINOIS AND SELECTED METROPOLITAN STATISTICAL AREAS
BY CENSUS YEARS

	1990	2000	2010
Illinois	11,430,602	12,419,293	12,830,632
Chicago CMSA (IL Part)	7,410,858	8,272,768	8,586,609
St. Louis MSA (IL Part)	588,995	599,845	633,042
Rockford MSA	329,676	371,236	349,431
Peoria MSA	339,172	347,387	379,186
Springfield MSA	189,550	201,437	210,170
Champaign-Urbana MSA	173,025	179,669	231,891

Source: U.S. Bureau of the Census, Population Division, August 31, 2016

TABLE A-13
ILLINOIS POPULATION BY AGE GROUP
By Calendar Year

	2015	% of Total Population
Under 18 years	2,958,673	23.0%
18 to 24 years	1,235,848	9.6%
25 to 44 years	3,444,157	26.8%
45 to 64 years	3,391,040	26.4%
65 years and over	1,830,277	14.2%
Total	12,859,995	100%

Source: U.S. Bureau of the Census, as of August 31, 2016

In 2015, 36 companies on the Fortune 500 list had headquarters located in Illinois. Illinois is among the top five states for number of businesses on the Fortune 500 list: New York: 55; Texas: 51; California: 51; Illinois: 36; and Ohio: 34.

TABLE A-14
ILLINOIS-BASED COMPANIES INCLUDED IN THE FORTUNE 500

Rank 2015	Rank 2014	Company	Revenues $000	Assets $000	Profits $000	Industry Category	Location	Number of Employees
19	35	Walgreens Boots Alliance	$103,444	$68,782	$4,220	Food and Drug Stores	Deerfield, IL	302,500
24	27	Boeing	96,114	94,408	5,176	Aerospace and Defense	Chicago, IL	161,400
35	41	State Farm Insurance Cos.	75,697	241,183	6,229	Insurance: Property and Casualty (Mutual)	Bloomington, IL	70,425
41	34	Archer Daniels Midland	67,702	40,157	1,849	Food Production	Chicago, IL	32,300
59	54	Caterpillar	47,011	78,497	2,102	Construction and Farm Machinery	Peoria, IL	112,200
80	79	United Continental Holdings	37,864	40,861	7,340	Airlines	Chicago, IL	84,000
81	89	Allstate	35,653	104,656	2,171	Insurance: Property and Casualty (Stock)	Northbrook, IL	41,350
94	91	Mondelez International	29,636	62,843	7,267	Food Consumer Products	Deerfield, IL	99,000
95	111	Exelon	29,447	95,384	2,269	Utilities: Gas and Electric	Chicago, IL	29,762
97	86	Deere	28,863	57,948	1,940	Construction and Farm Machinery	Moline, IL	57,180
109	110	McDonald's	25,413	37,939	4,529	Food Services	Oak Brook, IL	420,000
111	99	Sears Holdings	25,146	11,337	(1,129)	General Merchandisers	Hoffman Estates, IL	178,000
122	128	US Foods Holding	23,128	9,239	168	Wholesalers: Food and Grocery	Rosemont, IL	25,000
123	146	AbbVie	22,859	53,050	5,144	Pharmaceuticals	North Chicago, IL	28,000
138	134	Abbott Laboratories	20,661	41,247	4,423	Medical Products and Equipment	Abbott Park, IL	74,000
211	201	Illinois Tool Works	13,405	15,729	1,899	Industrial Machinery	Glenview, IL	48,000
220	253	CDW	12,989	6,755	403	Information Technology Services	Lincolnshire, IL	8,465
255	258	R.R. Donnelley & Sons	11,257	7,279	151	Publishing, Printing	Chicago, IL	68,400
281	276	Navistar International	10,140	6,692	(184)	Motor Vehicles and Parts	Lisle, IL	13,800
283	303	Discover Financial Services	10,002	86,936	2,297	Commercial Banks	Riverwoods, IL	15,036
285	290	W.W. Grainger	9,973	5,858	769	Wholesalers: Diversified	Lake Forest, IL	25,100
286	185	Baxter International	9,968	20,975	968	Medical Products and Equipment	Deerfield, IL	49,400
315	n/a	Univar	8,982	5,612	17	Wholesalers: Miscellaneous	Downers Grove, IL	9,200
334	341	Tenneco	8,203	3,967	247	Motor Vehicles and Parts	Lake Forest, IL	30,000
369	403	LKQ	7,193	5,648	423	Wholesalers: Diversified	Chicago, IL	31,100
377	346	Dover	7,029	8,620	870	Industrial Machinery	Downers Grove, IL	26,000
391	420	Anixter International	6,596	4,142	128	Wholesalers: Diversified	Glenview, IL	8,700
420	n/a	Baxalta	6,149	12,329	956	Pharmaceuticals	Bannockburn, IL	17,000
436	478	Jones Lang LaSalle	5,966	6,205	439	Real Estate	Chicago, IL	61,500
442	472	Old Republic International	5,766	17,111	422	Insurance: Property and Casualty (Stock)	Chicago, IL	8,200
446	451	Packaging Corp. of America	5,742	5,285	437	Packaging, Containers	Lake Forest, IL	13,000
451	363	Motorola Solutions	5,695	8,387	610	Network and Other Communications Equipment	Schaumburg, IL	14,000
456	462	Ingredion	5,621	5,074	402	Food Production	Westchester, IL	11,500
471	558	Arthur J. Gallagher	5,392	10,914	357	Diversified Financials	Itasca, IL	21,537
477	489	Essendant	5,363	2,263	(44)	Wholesalers: Electronics and Office Equipment	Deerfield, IL	6,400
496	518	Telephone & Data Systems	5,176	9,423	219	Telecommunications	Chicago, IL	10,400

Source: Fortune Magazine, June 6, 2016.

PART IV: TAX REVIEW

The State of Illinois levies taxes or fees on several categories of goods, services and revenues. A complete discussion of the history of such taxes and revenues generated can be found in *The Illinois Tax Handbook for Legislators, 32nd Edition March 2016* published by the Legislative Research Unit. (See APPENDIX F—WEBSITE INDEX.) The discussion below is from the Handbook.

The State's revenues are derived from several categories of taxes and fees. Historically, individual income taxes, sales taxes and corporate income taxes provide approximately 89% of total State revenues (not including revenues from the federal government and transfers from other State funds). Motor fuel taxes and vehicle registration fees support GO Bonds issued for Road Fund purposes under Section 4(a) of the Bond Act (or GO Bonds issued to refund such GO Bonds).

Individual Income Taxes

The Individual Income Tax ("IIT") is imposed on the taxable income of individuals, trusts and estates. Originally enacted in 1969, the IIT rate has been adjusted a number of times and is currently 3.75%. There is a lengthy list of exemptions that apply to the IIT. At current levels, net of refunds, each 1% in IIT produces approximately $3.4 billion in State revenue.

Net of funds currently being diverted to the Tax Refund Fund (see *"Note 1–Income Tax Refund Fund"* below), IIT is currently distributed as follows:

- 8% goes to the Local Government Distributive Fund through January 31, 2025.
- 7.3% goes to the Education Assistance Fund.
- 3.3% goes to the Fund for the Advancement of Education.
- 3.3% goes to the Commitment to Human Services Fund.
- 5% of collections from audits goes to the Tax Compliance and Administration Fund.
- The remainder goes to the General Revenue Fund.

Corporate Income Tax

The Corporate Income Tax ("CIT") is imposed on the taxable income of corporations, associations, joint-stock companies and cooperatives. Corporations are also subject to a supplemental income tax for local governments referred to as the Personal Property Tax Replacement Tax (see Note 2 PPRT discussion below). Originally enacted in 1969, the CIT rate has been changed a number of times and is currently at 5.25%. As with the IIT, various exemptions and deductions apply to the CIT. At current levels, net of refunds, each 1% in CIT produces approximately $400 million in revenue.

Net of the amounts currently diverted to the Income Tax Refund Fund (see discussion under *"Note 1–Income Tax Refund Fund"* below), the CIT is distributed as follows:

- 9.14% to the Local Government Distributive Fund through January 31, 2025.
- 7.3% goes to the Education Assistance Fund.
- 5% of collections from audits goes to the Tax Compliance and Administration Fund.
- The remainder goes to the General Revenue Fund.

Sales Tax

The Sales Tax ("ST") is made up of two matching pairs of taxes, the Retailers' Occupation Tax and Use Tax and 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. If out-of-state sellers have offices or other facilities in Illinois, the Illinois Department of Revenue can require them to collect these taxes on their sales in Illinois. The collection of these taxes is administered by the Department of Revenue (35 ILCS 105/1 ff (use tax); 120/1 ff (retailers occupation tax); 110/1 ff (service use tax); and 115/1 ff (service occupation tax).

Taxes on sales are currently at a rate of 6.25% of the purchase price of applicable goods. The State keeps the part equal to 5% of the purchase price, and pays the remaining 1.25% to local governments. The State Share of Sales Tax, is distributed as follows:

- 5.55% to the Build Illinois Fund primarily for Build Illinois bond debt service.
- Less than 1% goes to Other State Funds
- The remainder to the General Funds.

Motor Fuel Taxes

The Motor Fuel Taxes ("MFT") are imposed on gasoline ($0.19/gallon) and special fuels including diesel fuel ($0.215/gallon). Additional amounts are levied for underground storage tanks and other environmental impact fees; these additional levies are deposited into the Underground Storage Tank Fund. On an annual basis, $30 million of Motor Fuel Tax revenues are deposited into the Vehicle Inspection Fund for use by the Illinois Environmental Protection Agency; this distribution of revenue has, as of August 31, 2016, not yet been made for fiscal year 2016, but is provided for in Public Act 99-0524 for fiscal year 2017. MFT are distributed as follows:

- $0.025/gallon on special fuels to the State Construction Account Fund.
- $47 million for Grade Crossing Protection Fund and the State Boating Act Fund.
- Sufficient amounts for administrative costs of the Illinois Department of Revenue and the Illinois Department of Transportation.
- Of the remainder:
    - 45.6% to the State Construction Account Fund (37%) and the State Road Fund (63%).
    - 54.4% to municipalities by population (49.10%), Cook County (16.74%), Other Counties (18.27%) and townships/road districts (15.89%).

Motor Vehicle Fees: Revenue from motor vehicle fees is derived primarily from vehicle registrations, with fees from operators and chauffeurs licenses and vehicle titles representing a smaller portion of the total. Approximately 51 percent of these fees are paid into the Road Fund, 31 percent to the State Construction Account Fund, 14 percent to the Capital Projects Fund, and the rest to other funds of the State. Motor vehicle registration fees are $101 annually, with large truck and trailer registration fees range going as high as $3,191 for an 80,000 pound truck.

Note 1: Income Tax Refund Fund

The Income Tax Refund Fund is funded by a portion of both the CIT (15.2% of gross CIT receipts for 2016; 17.25% of gross CIT receipts for 2017) and IIT (9.75% of gross IIT receipts for 2016; 11.2% of gross IIT receipts for 2017) to fund tax refunds due to tax filers. The rates are adjusted by formula, which formula can and has frequently been changed by the General Assembly. Priority of payment has been to pay IIT refunds first, followed by CIT refunds. If funds are left over in the Income Tax Refund Fund, they are returned to the General Revenue Fund. This resulted in $77.1 million being returned to the General Revenue Fund in Fiscal Year 2016. 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. The Income Tax Refund Fund had a balance of $83.1 million as of August 31, 2016. As of August 31, 2016 there were $3.1 million in unpaid IIT refunds and $274.9 million in unpaid CIT refunds. Part of the Income Tax Refund Fund is also used to "true up" payments due to local governments under the Personal Property Replacement Tax ("PPRT"). 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 Replacement Taxes

The Illinois Constitution of 1970 abolished all ad valorem personal property taxes. In 1979, the General Assembly replaced these taxes on businesses with the PPRT that is earmarked to local governments to replace the ad valorem tax. The tax for corporations is 2.5% of federal taxable income. The tax for partnerships, trusts and "S" corporations is 1.5% of federal taxable income. A small portion of the corporate income tax that is imposed on certain estates and trusts is directed to the Fund for the Advancement of Education and the Commitment to Human Services Fund. The PPRT is distributed to local governments based on their relative share of the personal property tax collections in 1976 (Cook County) and 1977 (other 101 counties).

Local governments in Cook County receive 51.65% of the PPRT, with the balance of 48.35% to the local governments in the other 101 counties.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

FORM OF APPROVING OPINIONS OF CO-BOND COUNSEL

[LETTERHEAD OF RESPECTIVE CO-BOND COUNSEL]

[TO BE DATED CLOSING DATE]

We hereby certify that we have examined a certified copy of the proceedings (the *"Proceedings"*) of the Governor of the State of Illinois (the *"State"*) and the Director of the Governor's Office of Management and Budget of the State authorizing the issue by the State of its fully registered $1,303,145,000 General Obligation Refunding Bonds, Series of October 2016 (the *"Bonds"*), dated the date hereof. The Bonds mature on February 1 of each of the years, in the amounts and bear interest as follows:

YEAR OF MATURITY	PRINCIPAL AMOUNT	RATE OF INTEREST	YEAR OF MATURITY	PRINCIPAL AMOUNT	RATE OF INTEREST
2018	$ 92,510,000	5.00%	2026	$109,280,000	5.00%
2019	98,105,000	5.00%	2027	142,775,000	5.00%
2020	108,240,000	5.00%	2028	132,305,000	5.00%
2021	75,650,000	5.00%	2029	88,340,000	5.00%
2022	85,900,000	5.00%	2030	75,495,000	4.00%
2023	70,040,000	5.00%	2031	39,815,000	4.00%
2024	65,755,000	5.00%	2032	22,810,000	4.00%
2025	96,125,000	5.00%			

The Bonds due on or after February 1, 2028 are subject to redemption prior to maturity at the option of the State in whole, or in part in integral multiples of $5,000, from such maturities and interest rates as may be selected by the State (less than all of the Bonds of a single maturity to be selected by the Bond Registrar), on February 1, 2027, or on any date thereafter, at the redemption price of par plus accrued interest to the redemption date.

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

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

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

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

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

APPENDIX C

GLOBAL BOOK-ENTRY SYSTEM

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 maturity, in the aggregate principal amount thereof, and will be deposited with DTC.

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

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the 1934 Act. 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 Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment 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 Bond Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

FORM OF CONTINUING DISCLOSURE UNDERTAKING
FOR THE PURPOSE OF PROVIDING
CONTINUING DISCLOSURE INFORMATION
UNDER SECTION (B)(5) OF RULE 15C2-12

This Continuing Disclosure Undertaking (this *"Agreement"*) is executed and delivered by the State of Illinois (the *"State"*), in connection with the issuance of $1,303,145,000 General Obligation Refunding Bonds, Series of October 2016 (the *"Bonds"*). The Bonds are being issued pursuant to a Bond Sale Order approved by the Governor and the Director of the Governor's Office of Management and Budget of the State, dated September 30, 2016, as supplemented by a Sale Confirmation Certificate dated October 13, 2016 confirming the terms of sale of the Bonds (collectively, the *"Bond Order"*).

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

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

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

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

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

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

Commission means the Securities and Exchange Commission.

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

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

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

MSRB means the Municipal Securities Rulemaking Board.

Official Statement means the Final Official Statement, dated October 13, 2016, and relating to the Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STATE OF ILLINOIS

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

Date: November 2, 2016

EXHIBIT I
ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

Annual Financial Information: financial information and operating data including information of the type contained in the Official Statement as follows (i) in Tables 1 and 2 under the heading "SECURITY," (ii) in Tables 3, 4, 6 and 7 under the heading "STATE FINANCIAL INFORMATION", (iii) in Table A-1 in APPENDIX A—CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS, (iv) in Tables E-5, E-6 and E-18 in APPENDIX E—PENSION AND OTHER POST EMPLOYMENT BENEFITS, and (v) in Tables G-1 and G-2 in APPENDIX G—ACCOUNTING PRACTICES USED IN STATE FINANCIAL INFORMATION.

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

Annual Financial Information exclusive of Audited Financial Statements will be submitted to EMMA by 330 days after the last day of the State's fiscal year (currently June 30).

Audited Financial Statements are created and published by the Office of the Illinois Comptroller in the form of the State's Comprehensive Annual Financial Report (*"CAFR"*). Once available to the Governor's Office of Management and Budget, the CAFR will be submitted to EMMA within 30 days. The CAFR will be prepared in conformity with generally accepted accounting principles applicable to state governments as prescribed by the Governmental Accounting Standards Board.

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

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

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security
7. Modifications to the rights of security holders, if material
8. Bond calls, if material, and tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities, if material
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar event of the State*
13. The consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material

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

EXHIBIT III
CUSIP NUMBERS

YEAR OF MATURITY	CUSIP NUMBER
2018	452152F71
2019	452152F89
2020	452152F97
2021	452152G21
2022	452152G39
2023	452152G47
2024	452152G54
2025	452152G62
2026	452152G70
2027	452152G88
2028	452152G96
2029	452152H20
2030	452152H38
2031	452152H46
2032	452152H53

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

PENSION AND OTHER POST EMPLOYMENT BENEFITS

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") (collectively referred to herein as the "Retirement Systems" or "Pension Systems").

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 and the expenses of the pension plan. The necessary employer contributions to the Retirement Systems are calculated and recommended annually by an independent actuary based on State law requirements and certified by the Board of each Retirement System. See "—DETERMINATION OF EMPLOYER CONTRIBUTIONS." Information regarding the benefits provided by each Retirement System is available at the website for such system. See APPENDIX F—"WEBSITE INDEX."

For SERS, the State provides the majority of contributions for State employees combined with contributions from trust and federal funds. For GARS and JRS, the State provides the sole employer contribution to the Retirement Systems. For TRS, the State's contributions are combined with contributions from federal funds and the individual school districts (which employ the majority of TRS members), special districts and State agencies employing TRS members. For SURS, State contributions, combined with trust and federal funds, serve as the employer contribution.

Section 5 of Article XIII of the Illinois Constitution provides that "[m]embership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired" (the "Pension Protection Clause"). 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. See "LITIGATION."

State contributions to the Retirement Systems are made following appropriation by the General Assembly. The Board of each Retirement System is required, on or before November 1 of each year, to submit a proposed certification to the State Actuary of the amount necessary to pay the Required Annual Statutory Contribution (as defined below) for inclusion in the Governor's budget for the following fiscal year. On or before November 1 of each year, the Retirement Systems are required to prepare preliminary actuarial valuation reports. By January 1 of each year, the State Actuary is required to issue a report on such preliminary actuarial valuation reports, providing a review of the actuarial assumptions used in the proposed certification by the Retirement Systems and recommend any changes for consideration. See "—RECENT REPORTS REGARDING THE RETIREMENT SYSTEMS—*State Actuary's Fiscal Year 2015 Report.*" The Board of each Retirement System must consider all recommendations of the State Actuary prior to providing a final certification to the State of the Required Annual Statutory Contribution on or before January 15 of each year, beginning January 15, 2013. This Official Statement reflects the most current, final reports of the Retirement Systems and Auditor General. Final audits of the pension systems may be found at the Auditor General's website. The final Actuarial Valuations (as defined herein) for Fiscal Year 2015 may be found at each system's website. See APPENDIX F—"WEBSITE INDEX."

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*.) and the State Pension Funds Continuing Appropriation Act (40 ILCS 15/ *et seq.*) require payments to be made by the Comptroller and the Treasurer to the Retirement Systems in amounts sufficient to meet the requirements of the Statutory Funding Plan. See "—DETERMINATION OF EMPLOYER CONTRIBUTIONS—*The Actuarial Valuation*" below. Despite the continuing appropriation, the possibility still exists that the Retirement Systems will not receive the required contribution when due 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.

The Retirement Systems submit monthly payment requests to the Comptroller, but the Comptroller is not required to make payments upon receipt of the requests. In October 2015, the Comptroller announced that some delays in the monthly payments were expected during Fiscal Year 2016, but the required annual amount was paid in full by the end of the lapse period for Fiscal Year 2016. With respect to monthly payments from the State to the Retirement Systems during Fiscal Year 2017, the Comptroller has said that some delays in the monthly payments are possible, but it is expected that the annual payment for Fiscal Year 2017 will be paid in full by the end of the lapse period for Fiscal Year 2017. If the full amount of Required Annual Statutory Contributions is not paid in a timely manner, the Retirement Systems may be required to sell more assets than planned to pay benefits as they become due. Asset sales would reduce the amount of assets invested by the Retirement Systems and, as such, reduce the amount of investment income earned by the Retirement Systems in the future. For a description of the instances in which the Retirement Systems have been funded at less than the Actuarially Required Contribution level, and the effect of a sale of the Retirement Systems' assets to pay benefits, see "—HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS."

SOURCE INFORMATION

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

Furthermore, where tables in this disclosure present aggregate information regarding the Retirement Systems, specifically in Tables E-5 through E-15, such combined information results solely from the arithmetic calculation of numbers compiled from the Source Information.

The State is obligated to make contributions to the Retirement Systems as set forth in the Pension Code. See "—DETERMINATION OF EMPLOYER CONTRIBUTION" herein. In addition, the Retirement Systems' members make contributions to the Retirement Systems from their salaries. For more information on the amount of contributions made by the State and Retirement System members in each of Fiscal Years 2011 through 2015, see Tables E-6 through E-10.

The comprehensive annual financial reports ("Retirement System CAFR") of the Retirement Systems for the fiscal year ending June 30, 2015, and the Actuarial Valuations of the Retirement Systems for the fiscal year ending June 30, 2015 are available upon request to the respective Retirement System. The CAFRs and Actuarial Valuations of the Retirement Systems for the fiscal year ended June 30, 2016 have not yet been released. However, the Retirement Systems are required by statute to submit proposed certifications of the required fiscal year 2018 contributions from the State, which are calculated in the Actuarial Valuations, to the Governor, the State Actuary and the General Assembly by November 1, 2016. For contact information for each of the Retirement Systems, see each Retirement System's website provided in APPENDIX F—"WEBSITE INDEX."

BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS

As described above, the State provides funding for the five Retirement Systems. The following is a description of each Retirement System. Membership information and member contribution information for each Retirement System is presented at the end of this section in Table E-1.

The Teachers' Retirement System, TRS, is a cost-sharing, multiple-employer, public employee defined-benefit pension plan which provides coverage to teachers employed by public school districts in the State (excluding Chicago). 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 four-year staggered terms.

Although most of TRS's covered employees are not employees of the State, approximately 95% of the employer funding for TRS is paid by the State. TRS receives contributions from 855 local school districts, 134 special districts and 17 other State agencies. However, the contributions made by individual school districts, special districts and State agencies are minimal.

The State Universities Retirement System, SURS, is a cost-sharing, multiple-employer, primarily public employee defined-benefit pension plan. SURS provides coverage to faculty and staff of State universities, community colleges and related agencies. 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 six-year staggered terms.

SURS draws contributions from employees of nine universities, 39 community college districts and 13 other State agencies.

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 each employee's account, represent the employee's benefits under the plan. As opposed to defined-benefit plans which provide a predetermined level of benefits to the employee, the benefit in a defined contribution plan is not predetermined. The benefit is based on the individual account balance (consisting of contributions and investment returns thereon) available at retirement or termination. Members contribute 8.0% of their gross earnings.

The State Employees' Retirement System, SERS, is a single-employer, public employee defined-benefit pension plan. SERS provides benefits for most State employees not eligible for another State-sponsored retirement plan, as well as for certain employees appointed by the Governor and requiring confirmation by the Senate that elect to become members of SERS. SERS is governed by a 13-member Board of Trustees, consisting of the Comptroller, six trustees appointed by the Governor with the advice and consent of the Senate, four trustees elected by the SERS members, and two trustees elected by the SERS retirees. One appointed trustee position is currently vacant. All trustees except for the Comptroller serve five-year staggered terms.

Certain members of SERS are eligible for federal Social Security benefits. Of active employees, 60,920 are coordinated with Social Security. All other active employees are not coordinated with Social Security.

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

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

With the exception of certain SERS members, as discussed above, members of the Retirement Systems do not participate in Social Security through their employment with an employer participating in a Retirement System.

As of June 30, 2015, the membership in each of the Retirement Systems and the required membership contributions as a percentage of member salary were as follows:

TABLE E-1 MEMBERSHIP AND MEMBER CONTRIBUTIONS

Retirement System	Active Members	Inactive/ Entitled to Benefits	Retirees and Beneficiaries	Total	Member Contribution[(1)]
TRS	159,707	125,969	114,922	400,598	9.40%[(2)]
SURS	69,381	76,984	61,020	207,385	8.0% - 9.5%[(3)]
SURS/SMP [(4)]	11,928	8,476	432	20,836	8.0%
SERS [(5)]	63,273	4,180	67,954	135,407	4.0% - 12.5%[(6)]
JRS	961	24	1,121	2,106	8.5% or 11%[(7)]
GARS	145	75	424	644	9.5% or 11.5%[(8)]
Total	305,395	215,708	245,873	766,976	

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2015, except for data with respect to TRS which is from the CAFR of TRS as of June 30, 2015.

(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) The Board of Trustees of TRS reduced the member contribution rate to 9.0% effective July 1, 2016.

(3) Most members contribute a total of 8.0% of pensionable pay. Police officers and firefighters contribute a total of 9.5% of pensionable pay.

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

(5) Excludes SERS members eligible for deferred benefits totaling 247 for fiscal year ending June 30, 2015.

(6) 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.

(7) Each member's contribution 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.

(8) Members contribute 11.5% of their salaries, consisting of a retirement annuity (8.5%), an automatic annuity increase (1.0%) and a survivor's annuity (2.0%). Certain members may elect not to participate in the survivor's annuity and therefore contribute 9.5% of salary

State law regulates the Retirement Systems' investments. 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 APPENDIX F—"WEBSITE INDEX."

DETERMINATION OF EMPLOYER CONTRIBUTIONS

Actuaries and the Actuarial Process

Under the Pension Code, the required employer contributions to the Retirement Systems are calculated and recommended by independent actuaries on an annual basis. Each Retirement System's actuary produces a report, certified by the board of such Retirement System, called the "Actuarial Valuation," in which the actuary reports in part on the Retirement System's assets, liabilities, and Required Annual Statutory Contribution for the following fiscal year. The Actuarial Valuation also include financial reporting information prepared pursuant to applicable GASB pronouncements.

The Pension Code requires each Retirement System to produce a preliminary Actuarial Valuation within four months of the end of such Retirement System's fiscal year and a final Actuarial Valuation within six months of the end of the 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. See "—SOURCE INFORMATION."

The Required Annual Statutory Contribution is computed in accordance with the Pension Code and, more specifically, the Statutory Funding Plan, as hereinafter defined. The Statutory Funding Plan did not conform to the financial reporting standards promulgated by the Governmental Accounting Standards Board ("GASB") previously in effect (such standards to be hereinafter described and defined as the Prior GASB Standards). The Prior GASB Standards required calculation of an "Actuarially Required Contribution"[3] which, as a result of the Statutory Funding Plan, differed from the Required Annual Statutory Contribution. The differences between the requirements of the Prior GASB Standards and the State's statutory requirements are discussed in "—DETERMINATION OF EMPLOYER CONTRIBUTION–*Statutory Funding Plan Not in Accordance with GASB Standards.*"

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"). Each Actuarial Valuation must be accompanied by a statement from an actuarial firm that, to the best of its knowledge, the Actuarial Valuation is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice issued by the Actuarial Standards Board, and with applicable statutes.

To determine the Required Annual Statutory Contribution, the actuary calculates both the "Actuarial Accrued Liability" and the "Actuarial Value of Assets." To calculate the Actuarial Accrued Liability, the actuary uses a variety of demographic data about the Retirement System's membership (such as employee age, salary and service credits), the benefit provisions of the Retirement System, and various assumptions (such as estimated salary increases, interest rates, employee turnover, retirement, mortality and disability

---

3 The Prior GASB Standards refers to this concept as the Annual Required Contribution. In this Official Statement, this concept is referred to as the Actuarially Required Contribution and differs from the State's statutorily defined concept of the Required Annual Statutory Contribution. The Actuarially Required Contribution, under the Prior 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.

rates) to estimate future benefit payments, which are then discounted using an assumed investment rate of return to determine the present value of future benefits (the "PV of Future Benefits"). The PV of Future Benefits is an estimate of the value of the benefits to all members as of the date of the Actuarial Valuation, and includes benefits not yet earned, but assumed to be earned, by members of the Retirement System. Using an actuarial cost method, the actuary allocates the PV of Future Benefits to past, current and future service for each member of the Retirement System. The portion of the PV of Future Benefits allocated to past service is referred to as the Actuarial Accrued Liability and the portion of the PV of Future Benefits allocated to current service is referred to as the "Normal Cost." The Actuarial Value of Assets reflects the value of the investments and other assets held by the Retirement System. Various methods exist for calculating the Actuarial Value of Assets. For a discussion of these methods and assumptions used to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets of the Retirement Systems, see "—ACTUARIAL METHODS" and "—ACTUARIAL ASSUMPTIONS" below.

Any shortfall between the Actuarial Value of Assets and the Actuarial Accrued Liability is referred to as the "Unfunded Actuarial Accrued Liability" or "UAAL." The UAAL represents the present value of future benefits that are not matched by current plan assets. In addition, the actuary will compute the "Funded Ratio," which is the result obtained by dividing the Actuarial Value of Assets by the Actuarial Accrued Liability. The Funded Ratio and the UAAL are used to measure the financial health of a pension plan. An increasing UAAL or a decreasing Funded Ratio from year to year may signal 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 may indicate 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 projected benefits earned as of the valuation date.

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 level percent of payroll necessary to allow each Retirement System to achieve a 90% Funded Ratio by Fiscal Year 2045, subject to any revisions necessitated by actuarial gains or losses, or actuarial assumptions.

In addition, beginning with the fiscal year ended June 30, 2014, the Actuarial Valuation includes the financial reporting information required by the New GASB Standards, as defined and described in the succeeding section hereof.

GASB Financial Reporting Standards

GASB promulgates standards for financial reporting with respect to financial statements prepared by public pension systems and governments sponsoring such pension systems. Although the Retirement Systems' actuaries utilize these standards in preparing certain aspects of the Actuarial Valuation, such standards do not impact the calculation of the State's contribution to the Retirement Systems which is determined pursuant to the Statutory Funding Plan.

At present, several GASB standards apply to preparing financial reports with respect to defined benefit pension plans, specifically: GASB Statement No. 67 (Financial Reporting for Pension Plans) ("GASB 67") which replaced GASB Statement No. 25 (Financial Reporting for Defined Benefit Pension Plans) ("GASB 25"), and GASB Statement No. 68 (Accounting and Financial Reporting for Pensions) ("GASB 68" and, together with GASB 67, the "New GASB Standards") which replaced GASB Statement No. 27 (Accounting for Pensions by State and Local Government Employers) ("GASB 27" and, together with GASB 25, the "Prior GASB Standards"), beginning with the fiscal year ended June 30, 2015. GASB 25 and GASB 67 establish standards for financial reporting by pension plans and GASB 27 and

GASB 68 establish standards for financial reporting by the governments sponsoring such pension plans. GASB 67 and GASB 68, which were approved by GASB on June 25, 2012, replace GASB 25 and GASB 27, respectively. GASB 67 is applicable to fiscal years beginning after June 15, 2013. GASB 68 is applicable to fiscal years beginning after June 15, 2014. The New GASB Standards have subsequently been modified by GASB Statement No. 71 (Pension Transition for Contributions Made Subsequent to the Measurement Date) and GASB Statement No. 73 (Accounting and Financial Reporting for Pensions and Related Assets).

The system of financial reporting established by the Prior GASB Standards measured the funding of pension plans through the calculation of the Actuarially Required Contribution and a comparison of the contributions actually made by an employer during a given period to such Actuarially Required Contribution for such period. The calculation of the Actuarially Required Contribution pursuant to the Prior GASB Standards differs in several ways from the calculation of contributions under the Statutory Funding Plan. The differences between the Statutory Funding Plan and the Prior GASB Standards are described in "*—Statutory Funding Plan Not in Accordance with Prior GASB Standards*" below.

Unlike the Prior GASB Standards, the New GASB Standards do not establish approaches to funding pension plans. Instead, the New GASB Standards provide standards solely for financial reporting and accounting related to pension plans. The New GASB Standards require that the Net Pension Liability (as described below) be disclosed in the notes to the financial statements of the pension system and that a proportionate share of the Net Pension Liability be recognized on the balance sheet of the employer. In addition, the New GASB Standards require an expense (the "Pension Expense") to be recognized on the income statement. The recognition of the Net Pension Liability and the Pension Expense do not measure the manner in which a pension plan is funded. As such, the New GASB Standards do not conflict with the manner of funding established in the Statutory Funding Plan.

However, certain of the actuarial assumptions and actuarial methods required by the New GASB Standards differ from those used by the Retirement Systems in preparing their Actuarial Valuations. For example, the New GASB Standards require the Retirement Systems to value their assets at the fair market value of such assets on the valuation date, whereas the Pension Code requires the Retirement Systems to use the Asset Smoothing Method (as defined herein) to value their assets for purposes of determining the State's contribution. See "ACTUARIAL METHODS—*Actuarial Value of Assets*" herein. In addition, the New GASB Standards require use of the EAN Method (as defined herein) to calculate the liability of each Retirement System, whereas the Pension Code requires the Retirement Systems to use the PUC Method (as defined herein) for such calculations. See "ACTUARIAL METHODS—*Actuarial Accrued Liability*" herein. Finally, the calculated Discount Rate (as hereinafter defined) used to discount the liabilities of each Retirement System under the New GASB Standards may differ from assumed investment rate of return assumptions separately established by the boards of each of the Retirement Systems. See "ACTUARIAL ASSUMPTIONS—*Assumed Investment Rate of Return*" herein.

Statutory Funding Plan Not in Accordance with Prior GASB Standards

The method of amortizing the UAAL used by the Statutory Funding Plan does not conform with the provisions of the Prior GASB Standards, particularly GASB 25. The provisions of the Statutory Funding Plan differ from those generally accepted accounting principles formerly required by 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 allowed amortization of the entire UAAL over a 30-year open or closed amortization period. Second, the Statutory Funding Plan allowed the State to contribute less than the level percent of payroll necessary to reach the desired funding level for the first 15 years of the Statutory Funding Plan (the "ramp-up" period discussed below, which ended at the conclusion of Fiscal Year 2010). In contrast, GASB 25 did 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 in accordance with the Statutory Funding Plan) upon the passage of the amount of time established as the amortization period (which, for the State, is the number of years between the current period and 2045 in accordance with the Statutory Funding Plan), provided required payments are made. For example, under the Statutory Funding Plan, a 32-year amortization period was used to calculate the Required Annual Statutory Contribution for Fiscal Year 2014, while a 31-year amortization period was used to calculate the Required Annual Statutory Contribution for Fiscal Year 2015. Conversely, an open amortization period has no term limit and is therefore recalculated over the full period (generally 30 years) each time a valuation is performed. Assuming that the time periods are the same at the beginning of an amortization, amortizing through use of a closed period will have the effect of decreasing the UAAL at a greater rate than an open amortization period and, in the case of the State, will allow the State to reach its funding target by Fiscal Year 2045, provided that all required contributions are made. The actual results of both an open or closed amortization schedule will be impacted by any changes in actuarial assumptions and/or the performance of the asset portfolio.

These differences between GASB 25 and the Statutory Funding Plan account for the variation between the Required Annual Statutory Contribution and the Actuarially Required Contribution. See "—FUNDED STATUS" below. As a result, the Required Annual Statutory Contribution determined by the Retirement Systems' actuaries, while in conformity with State law, historically was less than the contribution that would otherwise have been determined in accordance with GASB 25 (the "Actuarially Required Contribution"). The Actuarially Required Contribution calculated pursuant to the Prior GASB Standards consisted of three components: (1) the Normal Cost, (2) an amortized portion of the UAAL sufficient to eliminate the UAAL over a period of time (as described in "—ACTUARIAL METHODS–*Actuarial Accrued Liability*"), and (3) one year's interest, calculated at the Assumed Actuarial Rate, on the unfunded pension liability. As discussed above, the Statutory Funding Plan requires the determination of the Required Annual Statutory Contribution by calculation of a level percent of payroll necessary to reach a 90% Funded Ratio by Fiscal Year 2045 and does not require elimination of the entire UAAL.

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

Prior to Fiscal Year 2009, the State valued assets at fair value, recognizing all investment gains and losses as they occurred. 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 recognizes actuarial investment gains and losses on such assets equally over a five-year period when determining the Actuarial Value of Assets. This method of valuation is called the "Asset Smoothing Method." Under the Asset Smoothing Method, the State will recognize in the current year 20% of the investment gain or loss incurred in each of the previous five years. State law provides for application of the Asset Smoothing Method prospectively, beginning with Fiscal Year 2009. The Asset Smoothing Method, which is an approved method for determining the Actuarial Value of Assets under the Prior GASB Standards but is not an approved method under the New GASB Standards (which require calculation of the Actuarial Value of Assets at fair market value), is intended to mitigate against 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. Because asset smoothing recognizes each year's gains and losses over a five-year period, the current Actuarial Value of Assets does not reflect the fair value of such assets at the time of measurement. As a result, the Actuarial Value of Assets as determined under the Asset Smoothing Method most likely will differ from the value of such assets pursuant to a valuation method that immediately recognizes investment gains and losses annually.

Actuarial Accrued Liability

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

The Pension Code requires that the Actuarial Accrued Liability of the Retirement Systems be calculated pursuant to the projected unit credit actuarial cost method (the "PUC Method"), which was an approved actuarial cost method under the Prior GASB Standards. The Prior GASB Standards also authorized the use of the entry age normal actuarial cost method (the "EAN Method") instead of the PUC Method. The EAN Method is the actuarial cost method required by the New GASB Standards.

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

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

ACTUARIAL ASSUMPTIONS

General

The Actuarial Valuations of the Retirement Systems use a variety of assumptions to calculate the Actuarial Accrued Liability and the Actuarial Value of Assets. Although several of the assumptions are the same across all of the Retirement Systems, each Retirement System determines, within actuarial standards, the assumptions to be used in its Actuarial Valuation. 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 E-2. For additional information on these assumptions, please see each Retirement System's Actuarial Valuation.

TABLE E-2 - 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)]	7.50%[(4)]	7.25%	7.25%[(4)]	7.00%[(4)]	7.00%[(4)]
Assumed Inflation Rate	3.00%	2.75%	3.00%[(5)]	3.00%[(5)]	3.00%[(5)]
Post-Retirement Increase (Tier 1)[(3)]	3.00%	3.00%	3.00%	3.00%	3.00%
Projected Salary Increases	Various[(6)]	3.75% to 15.0%[(7)]	Various[(8)]	3.50%[(9)]	3.75%[(10)]

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2015.

(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) JRS reduced its assumed investment rate of return assumption from 8.0% to 7.0% in the fiscal year ended June 30, 2010. GARS reduced its assumed investment rate of return assumption from 8.0% to 7.0% in the fiscal year ending June 30, 2011. In the fiscal year ending June 30, 2014, SURS and SERS reduced their assumed investment rates of return from 7.75% to 7.25% and TRS reduced its assumed investment rate of return from 8.0% to 7.5%.

(3) All values are compounded.

(4) The boards of TRS and SERS have approved lowering the investment rate of return assumption to 7.00%, and the boards of JRS and GARS have approved lowering the investment rate of return assumption to 6.75%, beginning with the valuation for the fiscal year ending June 30, 2016.

(5) The boards of SERS, GARS and JRS have approved lowering this assumption to 2.75% beginning with the valuation for the fiscal year ending June 30, 2016.

(6) Compensation is assumed to increase between 3.75% and 9.75% based on years of service. Of these increases, 3.00% represents inflation adjustments and 0.75% represents real wage growth.

(7) 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..

(8) Assumed rates of increase vary by age and include an inflation component of 3.0%

(9) Consists of an inflation component of 3.0%, a productivity component of 0.40% and a merit/promotion component of 0.10%.

(10) Consists of an inflation component of 3.0%, a productivity component of 0.60% and a merit/promotion component of 0.15%.

The Pension Code requires each of the Retirement Systems to conduct an actuarial experience review every three years. GARS, JRS and SERS last conducted an actuarial experience review based on the three-year period ending June 30, 2015. SURS and TRS last conducted experience reviews during 2015. 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, the State Actuary is required to review and deliver a report to the Boards regarding the reasonableness of the actuarial assumptions contained in the Actuarial Valuations of the Retirement Systems. Based upon the results of this review, the board of the applicable Retirement System may revise such actuarial assumptions as it deems appropriate. See "—RECENT REPORTS REGARDING THE RETIREMENT SYSTEMS—*State Actuary's Fiscal Year 2015 Report.*"

Publicly available statements by TRS and SERS (based on information to be included in the 2016 Actuarial Valuation when released) quantify the impact of recent changes to their respective actuarial assumptions. Such public statements of TRS indicate that recent assumption changes (which will become effective for the 2016 Actuarial Valuation which calculates the State's contribution for fiscal year 2018), when considered independently of other factors, would have increased the State's fiscal year 2017 contribution to TRS by $421 million if applicable in making such calculation. With respect to SERS, such Retirement Fund's public statements estimate that its actuarial assumption changes will increase the State's fiscal year 2018 contribution to SERS by approximately $320 million.

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 and to 7.50% in the Fiscal Year ending June 30, 2014. In addition, in Fiscal Year 2014, SURS and SERS reduced their assumed investment rates of return from 7.75% to 7.25%. Beginning with the fiscal year ending June 30, 2016, SERS and TRS will reduce their investment rate of return assumptions to 7.00%, and GARS and JRS will reduce their respective investment rate of return assumptions to 6.75%. The reductions previously approved by the Retirement Funds 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 E-3 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.

The assumed investment rates of return utilized by the Retirement Systems complied with the requirements of the Prior GASB Standards. The New GASB Standards similarly employ a rate, referred to in such statements as the "Discount Rate," which is used to discount the projected benefit payments to current participants to be made by the Retirement Systems to their actuarial present values. The Discount Rate may be a blended rate comprised of (1) a long-term expected rate of return on a Retirement System's investments (to the extent that such assets are projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate meeting certain specifications set forth in the New GASB Standards. Therefore, in certain cases in which the assets of a Retirement System are not expected to be sufficient to pay the projected benefits of such Retirement System, the Discount Rate calculated pursuant to the New GASB Standards may be lower than the investment rate of return established by the Retirement System when reporting pursuant to the Prior GASB Standards, which will have the effect of increasing the Net Pension Liability of such Retirement System relative to the Net Pension Liability of such Retirement System calculated under the rate determined pursuant to the Prior GASB Standards. See "—NET PENSION LIABILITY" herein for information regarding the sensitivity of the Net Pension Liability to changes in the Discount Rate.

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. In addition, based on public statements of the Retirement Systems, the State expects that the Retirement Systems experienced investment returns significantly below those assumed by the Retirement Systems for the fiscal year ended June 30, 2016, which, when considered independently of other factors, will further increase the UAAL and the State's Fiscal Year 2018 contribution. Although positive investment returns were achieved in some intervening fiscal years, no assurance can be given that negative trends in investment performance will not occur again in subsequent fiscal years, thereby resulting in a reduction in the Funded Ratio and a corresponding increase in the UAAL when considered independently of other factors.

TABLE E-3 - INVESTMENT RATES OF RETURN, FISCAL YEARS 2006-2015

	TRS		SURS		SERS		GARS		JRS	
Fiscal Year	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*	*Assumed*	*Actual*
2006	8.50%	11.8%	8.50%	11.7%	8.50%	11.0%	8.0%	11.0%	8.0%	11.0%
2007	8.50%	19.2%	8.50%	18.3%	8.50%	17.1%	8.0%	17.1%	8.0%	17.1%
2008	8.50%	-5.0%	8.50%	-4.5%	8.50%	-6.2%	8.0%	-6.2%	8.0%	-6.2%
2009	8.50%	-22.7%	8.50%	-19.7%	8.50%	-20.1%	8.0%	-20.1%	8.0%	-20.1%
2010	8.50%	12.9%	7.75%	15.0%	7.75%	9.1%	8.0%	9.1%	7.0%	9.1%
2011	8.50%	23.6%	7.75%	23.8%	7.75%	21.7%	7.0%	21.7%	7.0%	21.7%
2012	8.00%	0.8%	7.75%	0.5%	7.75%	0.1%	7.0%	0.1%	7.0%	0.1%
2013	8.00%	12.8%	7.75%	12.5%	7.75%	14.1%	7.0%	14.1%	7.0%	14.1%
2014	7.50%	17.4%	7.25%	18.2%	7.25%	17.9%	7.0%	17.9%	7.0%	17.9%
2015	7.50%	4.0%	7.25%	2.9%	7.25%	4.7%	7.0%	4.7%	7.0%	4.7%
5-Yr. Avg. Geometric Return	-	11.4%	-	11.2%	-	11.4%	-	11.4%	-	11.4%
10-Yr Avg. Geometric Return	-	6.6%	-	7.1%	-	6.2%	-	6.2%	-	6.2%

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2006 through June 30, 2015.

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.

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 level 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 level percent of payroll is revised and adjusted each year based on modifications to the actuarial assumptions and changes in the Actuarial Value of Assets. 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 Fiscal Years 1996 through 2002. These contributions were not sufficient to cover the full Normal Cost and interest, determined pursuant to the Prior GASB Standards, for such fiscal years. As a result, the UAAL continued to grow during the ramp-up period. See "—DETERMINATION OF EMPLOYER CONTRIBUTIONS–*Actuaries and the Actuarial Process*" and "—DETERMINATION OF EMPLOYER CONTRIBUTION–*Statutory Funding Plan Not in Accordance with GASB Standards*" 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, beginning in Fiscal Year 2005, the State's Required Annual Statutory Contributions in each fiscal year during which the 2003 Pension Bonds are outstanding may not exceed the Required Annual Statutory Contribution for each Retirement System that would have been required if the System had not received any payments from the proceeds of the 2003 Pension Bonds less the portion of the State's total debt service payments on the 2003 Pension Bonds allocated to such Retirement System based on the total moneys distributed to such Retirement System from the proceeds of the 2003 Pension Bonds (the "2003 Pension Bond Limitation"). See Table E-4 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. The total interest cost percentage of the 2003 Pension Bond proceeds at the date of issuance was 5.05%. Therefore, in any year that actual investment returns, measured in dollars, exceed debt service payments on the 2003 Pension Bonds for such year, the UAAL is reduced from what the UAAL would have been in the absence of the issuance of the 2003 Pension Bonds. Conversely, in those fiscal years in which actual investment returns, measured in dollars, are less than debt service payments on the 2003 Pension Bonds, the UAAL is increased from what the UAAL would have been in the absence of the issuance of the 2003 Pension Bonds. The Retirement Funds' investment rates of return for Fiscal Years 2006 through 2015 are set forth in Table E-3. The State's future debt service requirements with respect to the 2003 Pension Bonds are set forth in Table E-4. 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.

TABLE E-4 - 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
2016	$574.5	2025	$ 892.2
2017	595.2	2026	915.4
2018	614.7	2027	936.1
2019	633.2	2028	979.2
2020	674.6	2029	1,018.5
2021	713.4	2030	1,079.0
2022	749.8	2031	1,134.4
2023	783.7	2032	1,159.7
2024	840.2	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 Normal Cost plus interest.

State contributions to the Retirement Systems for Fiscal Years 2006 and 2007 were governed by the provisions of Public Act 94-0004 ("PA 94-4"). PA 94-4 modified the Statutory Funding Plan to specify reduced Required Annual Statutory Contributions for these two fiscal years. These reduced contributions were also lower than the Actuarially Required Contributions for such fiscal years. Under the provisions of the Statutory Funding Plan as originally constituted in the Pension Funding Act, the State would have been required to contribute $2.12 billion in Fiscal Year 2006 and $2.51 billion in Fiscal Year 2007. PA 94-4 reduced these contributions to $0.94 billion and $1.37 billion, respectively, which represented reductions of 55.7% and 45.3%, respectively. The contribution reductions required by PA 94-4 had the dual effect of increasing the UAAL and delaying payment of the deferred portion of the contribution to a future fiscal year.

The State made the full Required Annual Statutory Contributions for Fiscal Years 2008 and 2009 subject to the 2003 Pension Bond Limitation. 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 Normal Cost plus interest.

With respect to the State's contribution to the Retirement Systems for Fiscal Year 2010, pursuant to authorization under Public Act 96-0043 (the "2010 Pension Bond Act"), 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. With respect to the State's contribution to the Retirement Funds for Fiscal Year 2011, the State issued $3.7 billion in general obligation pension funding bonds (the "2011 Pension Bonds"), pursuant to the authorization under PA 96-1497 (the "2011 Pension Bond Act"), to fund a portion of the Required Annual Statutory Contribution for Fiscal Year 2011. Neither the 2010 Pension Bond Act nor the 2011 Pension Bond Act contain provisions having an effect similar to that of the 2003 Pension Bond Limitation. 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 Normal Cost plus interest.

The State made all required Fiscal Year 2012, 2013, 2014, 2015 and 2016 payments to the Retirement Systems although certain portions of the required payments were not made monthly or were made during the two month "lapse period" which starts on July 1 of the following Fiscal Year. In the past, the

Retirement Systems have sold assets to pay benefits as a result of a deficit between the contributions actually received by the Retirement Systems and their annual expenditures, including benefit payments. Failure 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 such assets are not replaced, the Actuarial Value of Assets will decrease and the UAAL and future Required Annual Statutory Contributions 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.

Pursuant to the Statutory Funding Plan, commencing with Fiscal Year 2011, the State is required to make contributions to the Retirement Systems at the level 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 the availability of sufficient revenues 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, and it does not contribute the shortfall between the actual contribution and the Required Annual Statutory Contribution in a subsequent fiscal year, the Funded Ratio will decrease and it is unlikely that the State will be able to achieve a 90% Funded Ratio by the end of Fiscal Year 2045 and the investment risk to bondholders will increase. If the State issues additional pension obligation bonds to make the Required Annual Statutory Contribution in any year and reduces future Required Annual Statutory Contributions by the amount of the debt service on such bonds, the UAAL will increase by the amount of such debt service. No assurance can be given that the State will not, through legislative action, subsequently modify the amount to be contributed in any given year.

Table E-5 shows the State's Actuarially Required Contributions along with the percentage of those contributions actually made in each of 2006 through 2015. Fiscal Year 2016 State payments to the Retirement Systems totaled approximately $7.5 billion.

TABLE E-5 - HISTORY OF STATE CONTRIBUTIONS [1]

Fiscal Year	Amount Contributed[2]	Actuarially Required Contribution Per GASB 25	Percentage Contributed
2006	$1,022.70	$3,085.60	33.14%
2007	1,479.40	3,665.60	40.36%
2008	2,145.00	3,729.20	57.52%
2009	2,891.90	4,076.40	70.94%
2010	4,130.90	4,786.80	86.30%
2011	4,298.57	5,906.59	72.78%
2012	5,012.82	6,609.55	75.84%
2013	5,893.87	7,015.33	84.01%
2014	6,944.73	7,751.99	89.59%
2015	7,020.06	7,896.83	88.90%

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2006 through June 30, 2015.

(1) In millions of dollars.

(2) Includes all State funds.

The State expects that the amount of its contribution to the Retirement Systems for the fiscal year ended June 30, 2018 will increase significantly with respect to the State's contributions in previous fiscal years as a result of, among other factors, the reduction in the assumed investment rate of return by TRS and SERS, changes in other assumptions by SERS and investment returns in Fiscal Year 2016 being substantially lower than assumed.

FUNDED STATUS

As of the end of Fiscal Year 2015, the Retirement Systems had an aggregate UAAL of approximately $111.0 billion on a fair value basis and $112.9 billion on an actuarial basis (calculated pursuant to the Asset Smoothing Method), resulting in respective Funded Ratios of 41.9% and 40.9%. Factors contributing to the increased UAAL from Fiscal Year 2014 to Fiscal Year 2015 include State contributions less than the Actuarially Required Contribution and investment returns below the Investment Rate of Return during Fiscal Year 2015.

The following tables summarize the financial condition of the Retirement Systems for Fiscal Years 2011 through 2015.

TABLE E-6
FINANCIAL CONDITION OF THE RETIREMENT SYSTEMS
FISCAL YEAR 2015
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$14,581,565	$45,824,382	$17,391,323	$ 56,790	$ 776,012	$78,630,072	$1,584,691
Income							
Member Contributions	$ 266,139	$ 935,451	$ 267,682	$ 1,487	$ 15,431	$ 1,486,191	$ 72,328
State and Employer Contributions	1,804,319	3,523,257	1,528,525	15,871	134,040	7,006,012	62,334
Investment Income	681,377	1,770,550	503,200	2,288	36,009	2,993,424	90,461
Total	$ 2,751,835	$ 6,229,257	$ 2,299,407	$ 19,646	$ 185,480	$11,485,626	$ 225,123
Expenditures							
Benefits and Refunds	$ 2,057,987	$ 5,625,037	$ 2,213,694	$ 21,467	$ 126,600	$10,044,785	$ 55,794
Administration	16,548	21,687	14,069	395	983	53,681	466
Total	$ 2,074,535	$ 5,646,724	$ 2,227,763	$ 21,862	$ 127,583	$10,098,466	$ 56,260
Ending Net Assets (Fair value)	$15,258,865	$46,406,915	$17,462,967	$ 54,574	$ 833,909	$80,017,232	$1,753,554
Actuarial Value of Assets	14,741,736	45,435,193	17,097,255	52,565	804,189	78,130,937	N/A
Actuarial Accrued Liabilities	40,743,410	108,121,825	39,520,687	328,244	2,314,147	191,028,313	N/A
UAAL (Fair Value)	25,484,545	61,714,910	22,057,720	273,670	1,480,238	111,011,081	N/A
UAAL (Actuarial Value)[3]	26,001,674	62,686,632	22,423,432	275,679	1,509,958	112,897,376	N/A
Funded Ratio (Fair Value)	37.5%	42.9%	44.2%	16.6%	36.0%	41.9%	N/A
Funded Ratio (Actuarial Value)[3]	36.2%	42.0%	43.3%	16.0%	34.8%	40.9%	N/A

Source: Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2015. 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, 2014.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "ACTUARIAL METHODS—Actuarial Value of Assets."

TABLE E-7
FINANCIAL CONDITION OF THE RETIREMENT SYSTEMS
FISCAL YEAR 2014
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$12,400,299	$39,858,768	$15,037,102	$ 54,348	$ 643,329	$67,993,846	$1,259,340
Income							
Member Contributions	$ 269,232	$ 928,746	$ 283,081	$1,503	$ 15,919	$ 1,498,481	$ 65,531
State and Employer Contributions	1,699,448	3,596,717	1,502,864	13,957	126,816	6,939,802	57,162
Investment Income	2,169,346	6,782,032	2,667,900	8,363	110,059	11,737,700	246,288
Total	$ 4,138,026	$11,307,495	$ 4,453,845	$ 23,823	$ 252,794	$20,175,983	$ 368,981
Expenditures							
Benefits and Refunds	$ 1,940,145	$ 5,320,663	$ 2,085,766	$ 21,046	$ 119,279	$ 9,486,899	$ 43,190
Administration	16,615	21,218	13,858	335	832	52,858	440
Total	$ 1,956,760	$ 5,341,881	$ 2,099,624	$ 21,381	$ 120,111	$ 9,539,757	$ 43,630
Ending Net Assets (Fair value)	$14,581,565	$ 45,824,382	$17,391,323	$ 56,790	$ 776,012	$78,630,072	$1,584,691
Actuarial Value of Assets	13,315,613	42,150,765	15,844,714	51,598	705,250	72,067,940	N/A
Actuarial Accrued Liabilities	39,526,845	103,740,377	37,429,515	323,379	2,229,277	183,249,393	N/A
UAAL (Fair Value)	24,945,280	57,915,995	20,038,192	266,589	1,453,265	104,619,321	N/A
UAAL (Actuarial Value)[3]	26,211,232	61,589,612	21,584,801	271,781	1,524,027	111,181,453	N/A
Funded Ratio (Fair Value)	36.9%	44.2%	46.5%	17.6%	34.8%	42.9%	N/A
Funded Ratio (Actuarial Value)[3]	33.7%	40.6%	42.3%	16.0%	31.6%	39.3%	N/A

Source: Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2014. 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, 2013.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "ACTUARIAL METHODS—Actuarial Value of Assets."

TABLE E-8
FINANCIAL CONDITION OF THE RETIREMENT SYSTEMS
FISCAL YEAR 2013
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$10,960,686	$36,516,825	$13,705,143	$ 52,745	$ 577,975	$61,813,374	$1,042,819
Income							
Member Contributions	$ 248,170	$ 921,422	$ 245,141	$1,451	$ 16,369	$ 1,432,553	$ 59,938
State and Employer Contributions	1,531,932	2,860,492	1,401,481	14,150	88,240	5,896,295	49,239
Investment Income	1,501,238	4,561,768	1,694,772	6,493	76,886	7,841,157	147,496
Total	$ 3,281,340	$ 8,343,682	$ 3,341,394	$ 22,094	$ 181,495	$15,170,005	$ 256,673
Expenditures							
Benefits and Refunds	$ 1,824,256	$ 4,981,481	$ 1,996,009	$ 20,151	$ 115,309	$ 8,937,206	$ 39,726
Administration	17,471	20,258	13,426	340	832	52,327	426
Total	$ 1,841,727	$ 5,001,739	$ 2,009,435	$ 20,491	$ 116,141	$ 8,989,533	$ 40,152
Ending Net Assets (Fair value)	$12,400,299	$39,858,768	$15,037,102	$ 54,348	$ 643,329	$67,993,846	$1,259,340
Actuarial Value of Assets	11,877,419	38,155,191	14,262,621	51,850	610,196	64,957,277	N/A
Actuarial Accrued Liabilities	34,720,765	93,886,988	34,373,104	320,462	2,156,805	165,458,124	N/A
UAAL (Fair Value)	22,320,466	54,028,220	19,336,002	266,114	1,513,476	97,464,278	N/A
UAAL (Actuarial Value)[3]	22,843,346	55,731,797	20,110,483	268,612	1,546,609	100,500,847	N/A
Funded Ratio (Fair Value)	35.7%	42.5%	43.7%	17.0%	29.8%	41.1%	N/A
Funded Ratio (Actuarial Value)[3]	34.2%	40.6%	41.5%	16.2%	28.3%	39.3%	N/A

Source: Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2013. Table may not add due to rounding. Certain information was provided by the Retirement Systems.

(1) The SURS Self Managed Plan ("SMP") is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability. See "BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS."

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

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "ACTUARIAL METHODS─Actuarial Value of Assets."

TABLE E-9
FINANCIAL CONDITION OF THE RETIREMENT SYSTEMS
FISCAL YEAR 2012
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan of SURS[1]
Beginning Net Assets[2]	$10,970,752	$37,471,267	$14,274,003	$ 60,395	$ 605,959	$63,382,376	$ 960,538
Income							
Member Contributions	$ 259,123	$ 917,661	$ 258,236	$ 1,623	$ 16,445	$ 1,453,088	$ 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	$ 1,656,514	$ 3,703,027	$ 1,253,118	$ 12,044	$ 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	$ 1,666,580	$ 4,657,469	$ 1,821,978	$ 19,694	$ 108,004	$ 8,273,725	$ 34,424
Ending Net Assets (Fair value)	$10,960,686	$36,516,825	$13,705,143	$ 52,745	$ 577,975	$61,813,374	$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)	22,130,500	53,508,120	19,465,073	250,724	1,443,741	96,798,158	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. 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.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "ACTUARIAL METHODS—Actuarial Value of Assets."

TABLE E-10
FINANCIAL CONDITION OF THE 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	$ 53,225,124	$719,980
Income							
Member Contributions	$ 254,201	$ 909,577	$ 260,177	$2,006	$ 16,725	$ 1,442,686	$ 49,757
State and Employer Contributions	1,127,887	2,326,029	773,595	11,444	62,694	4,301,649	44,841
Investment Income	1,930,208	7,234,539	2,801,109	10,291	105,258	12,081,405	172,506
Total	$ 3,312,296	$10,470,145	$ 3,834,881	$ 23,741	$ 184,677	$ 17,825,740	$267,104
Expenditures							
Benefits and Refunds	$ 1,529,640	$ 4,304,870	$ 1,670,146	$ 17,738	$ 101,372	$ 7,623,766	$ 26,302
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	$ 7,668,488	$ 26,546
Ending Net Assets (Fair value)	$10,970,752	$37,471,267	$14,274,003	$ 60,395	$ 605,959	$ 63,382,376	$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	146,460,036	N/A
UAAL (Fair Value)	20,424,256	43,828,478	17,240,333	238,013	1,346,580	83,077,660	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.

(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.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "ACTUARIAL METHODS—Actuarial Value of Assets."

Tables E-11 presents information regarding the aggregate funding progress of the Retirement Systems for Fiscal Years 2006 through 2015.

TABLE E-11 - SCHEDULE OF FUNDING PROGRESS[(1)]
FAIR VALUE OF ASSETS AND ACTUARIAL VALUE OF ASSETS

BASED ON FAIR VALUE OF ASSETS

FY	Fair Value of Assets[(2)] (a)	Actuarial Accrued Liability (b)	UAAL (b-a)	Funded Ratio (a/b)	Payroll (c)	UAAL as a % of Payroll ([b-a]/c)
2006	$62,341	$103,074	$40,732	60.5%	$14,541	280.1%
2007	70,731	112,909	42,177	62.6%	15,249	276.6%
2008	64,701	119,084	54,384	54.3%	15,949	341.0%
2009	48,542	126,436	77,893	38.4%	16,607	469.0%
2010	53,225	138,794	85,569	38.3%	17,042	502.1%
2011	63,382	146,460	83,078	43.3%	17,062	486.9%
2012	61,813	158,612	96,798	39.0%	17,314	559.1%
2013	67,934	165,458	97,524	41.1%	17,357	561.9%
2014	78,630	183,249	104,619	42.9%	17,637	593.2%
2015	79,981	191,028	111,048	41.9%	17,890	620.7%

BASED ON ACTUARIAL VALUE OF ASSETS

FY	Actuarial Value of Assets[(3)] (a)	Actuarial Accrued Liability (b)	UAAL (b-a)	Funded Ratio (a/b)	Payroll (c)	UAAL as a % of Payroll ([b-a]/c)
2009	63,996	126,436	62,439	50.6%	16,601	376.0%
2010	63,053	138,794	75,741	45.4%	17,042	444.4%
2011	63,553	146,460	82,907	43.4%	17,062	485.9%
2012	64,030	158,612	94,582	40.4%	17,314	546.3%
2013	64,957	165,458	100,501	39.3%	17,357	579.0%
2014	72,068	183,249	111,181	39.3%	17,637	630.4%
2015	78,131	191,028	112,897	40.9%	17,890	631.1%

Source: Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2006, through June 30, 2015.

(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) 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 in "ACTUARIAL METHODS–Actuarial Value of Assets."

NET PENSION LIABILITY

GASB 67 calls for the calculation and disclosure of the "Net Pension Liability," which is the difference between the actuarial present value of projected benefit payments that is attributed to past periods of employee service calculated pursuant to the methods and assumptions set forth in the New GASB

Standards (referred to in such statements as the "Total Pension Liability") and the value of the pension plan's assets (referred to as the "Fiduciary Net Position"), calculated at fair market value.

The concept of the Net Pension Liability is similar to the concept of the UAAL. However, because the Fiduciary Net Position is calculated at fair market value, and because of the differences in the manner of calculating the Total Pension Liability as compared to the Actuarial Accrued Liability under the Prior GASB Standards, the Retirement Systems' UAAL and Net Pension Liability most likely will differ on each measurement date.

Table E-12A presents the Net Pension Liability of each Retirement System as of June 30, 2014, and June 30, 2015. Table E-12B provides information regarding the impact of potential changes to the Discount Rate on the Net Pension Liability for fiscal year ended June 30, 2015. For additional discussion regarding the rates of return and the Discount Rate as employed by the actuaries of the Retirement Systems, see "ACTUARIAL ASSUMPTIONS—Assumed Investment Rate of Return" above. The June 30, 2014, calculation of the Net Pension Liability was the initial calculation of the Net Pension Liability pursuant to the New GASB Standards, and, as such, historical information is not available.

TABLE E-12A - NET PENSION LIABILITY (1)

	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a Percentage of Total Pension Liability
		TRS		
2014	$106,683	$45,824	$60,858	43.0%
2015	111,917	46,407	65,510	41.5%
		SURS		
2014	$39,182	$17,391	$31,791	44.4%
2015	41,219	17,463	23,756	42.4%
		SERS		
2014	$41,685	$14,582	$27,104	35.0%
2015	43,267	15,259	28,008	35.3%
		JRS		
2014	$2,231	$776	$1,455	34.8%
2015	2,353	834	1,519	35.4%
		GARS		
2014	$398	$57	$341	14.3%
2015	333	55	278	16.5%
		Total		
2014	$190,179	$78,630	$111,549	41.3%
2015	199,090	80,017	119,072	40.2%

Source: The Actuarial Valuations of the Retirement Systems for the fiscal years ended June 30, 2014, and June 30, 2015.

(1) In millions. Rows and columns may not sum due to rounding.

TABLE E-12B - SENSITIVITY OF NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE [1]

	FISCAL YEAR 2015		
	1% DECREASE	CURRENT	1% INCREASE
TRS			
Discount Rate	6.47%	7.47%	8.47%
Net Pension Liability	$80,954	$65,510	$52,845
SURS			
Discount Rate	6.12%	7.12%	8.12%
Net Pension Liability	$28,929	$23,756	$19,471
SERS			
Discount Rate	6.02%	7.02%	8.02%
Net Pension Liability	$33,717	$28,008	$23,269
GARS			
Discount Rate	5.91%	6.91%	7.91%
Net Pension Liability	$315	$279	$248
JRS			
Discount Rate	5.85%	6.85%	7.85%
Net Pension Liability	$1,777	$1,519	$1,299

Source: The Actuarial Valuations of the Retirement Systems for the fiscal years ended June 30, 2015.

(1) In millions.

COMPONENTS OF CHANGE IN UNFUNDED LIABILITY

A variety of factors impact the Retirement Systems' UAAL. Unexpected increases in member salary and benefits, a lower return on investment than that assumed by the Retirement Systems and employer contributions less than the Actuarially Required Contribution will, each taken independently of other legislative or market effects, cause an increase in the UAAL. Conversely, unexpected decreases in member salary and benefits, a higher return on investment than assumed, an increase in employee contributions and employer contributions in excess of the Actuarially Required Contribution, each taken independently of other legislative or market effects, will decrease the UAAL. In addition, changes in actuarial assumptions and certain other factors may also impact the UAAL. Table E-13 provides information regarding the sources of the change in the UAAL for the Retirement Systems from Fiscal Years 2006 through 2015. The UAAL on a fair value basis increased from $40.7 billion at the end of Fiscal Year 2006 to $110.0 billion at the end of Fiscal Year 2015, an increase of $70.3 billion. No assurances can be given that the State will make the appropriations necessary to meet any deficiencies incurred by the Retirement Systems.

TABLE E-13 - COMPONENTS OF CHANGE IN UNFUNDED LIABILITY

Fiscal Year	Salary Increases/ (Decreases)	Investment Returns (Higher)/Lower Than Assumed(2)	Employer Contributions (Higher)/Lower than Normal Cost Plus Interest(3)	Benefit Increases	Changes In Actuarial Assumptions	Other Factors(4)	Total Change in Unfunded Liability From Previous Year
2006	$ 108.3	$(1,843.1)	$3,484.5	0.0	$ 704.6	$ (323.2)	$ 2,131.2
2007	314.9	(6,064.1)	3,321.0	0.0	2,735.2	1,138.3	1,445.2
2008	72.8	9,312.3	2,785.9	0.0	0.0	35.5	12,206.5
2009	(105.8)	3,831.9	3,231.3	0.0	0.0	1,097.7	8,055.2
2010	(421.9)	4,818.1	2,746.1	0.0	5,209.1	950.5	13,301.8
2011	(847.3)	2,667.2	3,666.0	0.0	581.3	1,098.7	7,166.0
2012	(1,294.5)	2,844.8	4,308.0	0.0	4,625.0	1,191.5	11,674.8
2013	(631.2)	2,398.7	3,353.0	0.0	71.3	727.3	5,919.1
2014	(229.0)	(3,130.5)	2,408.9	0.0	11,107.0	524.2	10,680.6
2015	(820.3)	(2,399.6)	3,212.9	0.0	1,559.3	163.7	1,715.9
Total	$(3,683.2)	$7,560.3	$30,259.4	$0.0	$26,619.3	$9,037.8	$69,793.6

Source: Commission on Government Forecasting and Accountability, Report on the Financial Condition of the Illinois Retirement Systems: Financial Condition as of June 30, 2014. See "RECENT REPORTS AND OTHER DEVELOPMENTS REGARDING THE RETIREMENT SYSTEMS—Report of the Commission on Government Forecasting and Accountability." Information regarding Fiscal Year 2015 was provided by the Retirement Systems.

(1) Dollars 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-service mortality, retiree mortality or terminations than assumed.

PROJECTION OF CONTRIBUTIONS AND FUNDED STATUS

Table E-14 provides a projection of the State's Required Annual Statutory Contribution and Table E-15 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 the assumptions underlying these projections will reflect actual experience of the Retirement Systems. In the event that the Retirement Systems' experience is different from these assumptions, no assurance can be given that such experience will not cause material changes to the data presented in this table. Specifically, as described in "ACTUARIAL ASSUMPTIONS—General" above, the State projects that, based on recent actuarial assumption changes by TRS and SERS combined with investment returns significantly lower than assumed for the Retirement Systems for the fiscal year ended June 30, 2016, the State expects that its contribution to the Retirement Systems will increase substantially beginning with the fiscal year ending June 30, 2018. The effect of such actuarial assumption changes and investment returns, and the related contribution increases, are not reflected in Tables E-14 or E-15.

TABLE E-14 - PROJECTED REQUIRED ANNUAL STATUTORY CONTRIBUTIONS TO THE RETIREMENT SYSTEMS[1]

Fiscal Year	Projected Required Annual Statutory Contributions
2016	$ 7,538
2017	7,826
2018	8,062
2020	8,374
2025	9,633
2030	11,125
2035	13,660
2040	15,541
2045	17,381

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2015.

(1) Dollars in millions.

TABLE E-15- PROJECTION OF FUTURE RETIREMENT SYSTEMS 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)
2016	$ 83,129.37	$197,917.62	$114,788.25	42.0%
2017	89,206.75	204,826.49	115,619.74	43.6%
2020	103,670.88	225,424.05	121,753.17	46.0%
2025	128,581.96	258,441.10	129,859.14	49.8%
2030	156,118.60	288,032.03	131,913.43	54.2%
2035	190,601.38	312,178.52	121,577.14	61.1%
2040	238,204.60	328,681.86	90,477.26	72.5%
2045	304,530.43	338,367.77	33,837.34	90.0%

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2015.

(1) Dollars in millions.

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

2010 LEGISLATION MODIFYING PENSION STRUCTURE

The State has not provided significant benefit enhancements for Retirement System members since 2003.

On March 24, 2010, the General Assembly enacted Public Act 96-0889 ("PA 96-889"). PA 96-889 provided for significant reforms to the Retirement Systems, most notably by establishing a "two-tier" pension system expected to reduce pension payments for employees who become members of the Retirement Systems after January 1, 2011 ("Tier Two Employees"), as compared to those provided to State employees who commenced employment prior to January 1, 2011 ("Tier One Employees"). PA 96-889 did not impact persons that first became members or participants prior to its effective date of January 1, 2011.

Taken independently of other legislative or market effects, the reduced benefits afforded new hires by PA 96-889 are expected to reduce the growth in the Actuarial Accrued Liability, the UAAL and the Required Annual Statutory Contribution. In calculating the Actuarial Accrued Liability, the actuaries make assumptions about future benefit levels. As a greater percentage of the State's workforce is covered by PA 96-889, the value of future benefits is expected to decrease and the Actuarial Accrued Liability is expected to decrease. Consequently, the UAAL is expected to decrease and the Funded Ratio to increase. As the growth in the UAAL slows, the Required Annual Statutory Contribution is expected to decline 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, the reduction in future benefits under PA 96-889 caused an immediate reduction in the State's required contribution to the Retirement System for Fiscal Year 2011 under the current Statutory Funding Plan after recertification pursuant to Public Act 96-1511. In the long-term, this decrease in future benefits is expected to reduce the sum of contributions required to reach the applicable statutorily required target Funded Ratio because the State's liability for benefits is expected to decrease as a greater number of employees earn 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. The Retirement Systems currently project that the number of Tier Two Employees will exceed the number of Tier One Employees beginning in the fiscal years as follows: (i) for TRS, Fiscal Year 2024; (ii) for SERS, Fiscal Year 2021; (iii) for SURS, Fiscal Year 2020; (iv) for GARS, Fiscal Year 2022; and (v) for JRS, Fiscal Year 2020.

2013 LEGISLATION MODIFYING PENSION STRUCTURE

PA 98-0599 was signed into law on December 5, 2013 and provided for changes to funding levels, automatic annual increases, retirement ages and employee contributions for TRS, SERS, SURS and GARS. PA 98-0599 was scheduled to take effect on June 1, 2014. However, PA 98-0599 was declared unconstitutional and void in its entirety by the Illinois Supreme Court on May 8, 2015. The State did not file an appeal to the U.S. Supreme Court with respect to the Illinois Supreme Court's determination regarding the constitutionality of PA 98-0599. See "LITIGATION."

FUTURE PENSION REFORM PROPOSALS

Various proposals for reform of the Pension Code provisions related to the Retirement Systems have been introduced and are pending in the Illinois General Assembly. The Governor has advanced a pension reform proposal which is described in the Fiscal Year 2017 Budget Book. See APPENDIX F—WEBSITE INDEX for a link to the Fiscal Year 2017 Budget Book. The State can give no assurance as to whether any of such proposals, or any proposals to be introduced in the future, will be enacted into law and, if so enacted, the effect such proposals may have on the Retirement Systems or the State's future contributions to the Retirement Systems.

RECENT REPORTS REGARDING THE RETIREMENT SYSTEMS

State Actuary's Fiscal Year 2015 Report

By January 1 of each year, the State Actuary is required to issue a preliminary report providing a review of the actuarial assumptions used by the Retirement Systems in preparing their proposed certification 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. The State Actuary's Fiscal Year 2015 report on the actuarial assumptions and valuations of the Retirement Systems is available on the State Auditor General's website. See APPENDIX F—"WEBSITE INDEX." The assumptions contained in the 2015 Actuarial Valuation reports of the Retirement Systems were affirmed by the State Actuary; however, recommendations were made for additional disclosure to the 2015 Actuarial Valuations, for changes to the formula for funding the Retirement Systems set forth in the Pension Code to fully fund future plan benefit accruals, as well as certain changes for future Actuarial Valuations including a recommendation that certain of the Retirement Systems lower their respective assumed investment rate of return assumptions in the future. See "—ACTUARIAL ASSUMPTIONS–*Assumed Investment Rate of Return*" for additional information regarding the assumed investment rate of return assumption. If the Retirement Systems lower their assumed investment rate of return assumptions as recommended, the effect will be, considered independently of other factors, to increase the UAAL (as hereinafter defined) and the Required Annual Statutory Contribution and to decrease the Funded Ratio (as hereinafter defined). The Board of each Retirement System must consider all recommendations of the State Actuary; however, no assurance can be given any recommendations will be adopted. The responses of each System to the recommendations of the State Actuary are contained in Appendix C of the aforementioned report.

Report of the Commission on Government Forecasting and Accountability

The Commission on Government Forecasting and Accountability ("COGFA") prepared a report dated March 2016, on the financial condition of the Retirement Systems as of June 30, 2015 (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 APPENDIX F—"WEBSITE INDEX." The State makes no representations nor expresses any opinion on the COGFA Report.

SEC ORDER

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

On March 11, 2013, the SEC instituted administrative proceedings and imposed a cease-and-desist order (the "Order"). The Order can be found on the State's Capital Markets website and the Electronic Municipal Market Access website. See APPENDIX F—"WEBSITE INDEX" herein. 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 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 instituted by the State to ensure compliance with its disclosure obligations under the federal securities laws, as described in the Order.

Prior to the SEC inquiry and in response to statements made by the SEC in an enforcement action against the State of New Jersey (SEC Rel. No. 9135, August 18, 2010), the State engaged outside counsel to assist the State in reviewing the enforcement action against New Jersey, to update certain of the information contained in this Appendix and to draft the disclosure policies and procedures set forth in the following subsection. The State has continued to engage Disclosure Counsel to assist the State in updating the information contained in this Appendix and to implement 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. The State's written policies and procedures, among other things, established a committee within the GOMB consisting of GOMB employees (the "Disclosure Committee") to oversee the pension disclosure process. The GOMB Director of Capital Markets serves as chairperson of the Disclosure Committee, and the General Counsel of the GOMB serves as an ex-officio member. The Disclosure Committee has primary responsibility for drafting, editing and updating the State's pension disclosure. Prior to release of the pension disclosure in an official statement or at the time of an update as mandated in the policies and procedures, the pension disclosure is 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 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.

OTHER POST-EMPLOYMENT BENEFITS

PLAN DESCRIPTION

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

FUNDING POLICY AND ANNUAL OPEB COST

The State contributes 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 contributes is determined from negotiations with the collective bargaining units within the various retirement systems. Public Act 97-0695 ("P.A. 97-0695"), effective July 1, 2012, altered the contributions to be paid by the various parties to the plan, including the State, and empowered to set the level of State contribution on an annual basis. See APPENDIX F—"WEBSITE INDEX" herein. However, on July 3, 2014, the Illinois Supreme Court determined in *Kanerva v. Weems* that P.A. 97-0695 was unconstitutional in violation of Section 5 of Article VIII of the Illinois Constitution.

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.

The State's Annual OPEB Cost is calculated pursuant to GASB Statement No. 45 ("GASB 45"). GASB 45 funding requirements differ significantly from the pay-as-you-go funding method used by the State to make contributions to the plan. Therefore, the actual contributions made by the State to the plan differ from the Actuarially Required Contribution and the Annual OPEB Cost. The State's Annual OPEB Cost for the prior year and related information is included in Tables E-16, E-17 and E-18.

TABLE E-16
NET OTHER POST EMPLOYMENT BENEFITS OBLIGATION FISCAL YEAR 2015
($ IN THOUSANDS)

Actuarially Required Contribution (Net of ARC adjustments)	$ 2,170,058
Plus: Interest on Net OPEB Obligations	472,143
Adjustment to ARC	(349,736)
Annual OPEB Cost	$ 2,292,465
Benefits paid during the year	(809,876)
Increase in Net OPEB Obligations	$ 1,482,589
Net OPEB Obligations at June 30, 2014	10,492,063
Net OPEB Obligations at June 30, 2015	$11,974,652

Source: The State CAFR.

TABLE E-17
OTHER POST EMPLOYMENT BENEFITS – FISCAL YEARS 2011-2015
($ IN MILLIONS)

	2011	2012	2013	2014	2015
Annual Required Contribution[1]	$2,339	$2,463	$2,378	$2,344	$2,292
Benefits paid during the year	501	777	625	905	810
Increase in Net OPEB Obligations	1,838	1,686	1,753	1,439	1,482
Net OPEB Obligations Balance	5,716	7,300	9,053	10,492	11,975

Source: Illinois State Employment Group Insurance Program GASB No. 45 Actuarial Valuation Report and the State CAFR.

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

GASB Statement No. 45 requires the calculation of the OPEB Actual Accrued Liability ("AAL") which is the actuarial present value of future plan benefits earned as of the valuation date. The AAL at the end of Fiscal Year 2014 was $33,051 million and the projected AAL at the end of Fiscal Year 2015, based on the Actuarial Valuation for the OPEB plan, was $34,766 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 normal cost for each year and the amortized unfunded AAL over the amortization period of thirty years.

TABLE E-18
OTHER POST EMPLOYMENT BENEFITS UNFUNDED
ACTUARIAL ACCRUED LIABILITY – FISCAL YEARS 2011-2015
($ IN MILLIONS)

	2011	2012*	2013	2014	2015**
Unfunded Actuarial Accrued Liability	$33,295	$35,200	$34,488	$33,051	$34,766

Source: Illinois State Employment Group Insurance Program GASB No. 45 Actuarial Valuation Report and the State CAFR.
Note: the GASB No. 45 Actuarial Valuation Report is produced every other year; there will be a full valuation reporting on fiscal year 2015.
* Estimation in the succeeding year's report.
** Estimation in the preceding year's report.

APPENDIX F

WEBSITE INDEX

Organization or Department	Website Address	Description of Website
State of Illinois	http://www.illinois.gov/	Lead portal for all State information
Governor's Office of Management and Budget	http://www.illinois.gov/gov/budget/	Lead portal for operating budgets, economic and fiscal reports and three year projections and quarterly reports
Fiscal Year 2017 Budget Book	http://www.illinois.gov/gov/budget/Documents/Budget%20Book/FY%202017%20Budget%20Book/FY2017OperatingBudgetBook.pdf/	Link to the Governor's Budget Book
Central Management Services	http://www.ilga.gov/commission/jcar/admincode/080/08002200sections.html	Link to Illinois General Assembly's Administrative Code database - CMS State Employees Group Insurance Program Retiree Premium Contributions
Comptroller	http://www.illinoiscomptroller.gov/	Lead portal for all Comptroller based information
Comptroller (CAFR)	http://ledger.illinoiscomptroller.com/find-reports/comprehensive-reporting/comprehensive-annual-financial-report-cafr/	Link to CAFR Library
Comptroller, Traditional Budgetary Financial Report	http://ledger.illinoiscomptroller.com/find-reports/budgetary-reporting/traditional-budgetary-financial-report/	Link to the Traditional Budgetary Financial Report
General Assembly	http://www.ilga.gov/	Lead portal to the Illinois General Assembly
Auditor General	http://www.auditor.illinois.gov/	Lead portal to the Auditor General
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/2016TaxHandbook.pdf	Legislative Research Unit handbook on all Illinois taxes
Illinois Department of Revenue	http://iltax.org/	Lead portal to the Department of Revenue
Retirement Systems:		
TRS	http://www.trs.illinois.gov/	Lead portal to Teachers' Retirement System
SURS	http://www.surs.org/	Lead portal to State Universities Retirement System
SERS	http://www.srs.illinois.gov/sers/home_sers.htm	Lead portal to State Employees' Retirement System
JRS	http://www.srs.illinois.gov/Judges/home_jrs.htm	Lead portal to Judges' Retirement System
GARS	http://www.srs.illinois.gov/gars/home_gars.htm	Lead portal to General Assembly Retirement System
Commission on Government Forecasting and Accountability	http://cgfa.ilga.gov/ http://cgfa.ilga.gov/Resource.aspx?id=194	Lead portal to COGFA, contains its report on the financial condition of the Retirement Systems
Illinois State Board of Investment	http://www.illinois.gov/isbi	Lead portal to the Illinois State Board of Investment
Illinois Department of Central Management Services	http://www.cms.illinois.gov/	Lead portal to the Illinois Department of Central Management Services
State of Illinois Capital Markets	http://www.illinois.gov/gov/budget/capitalmarkets/Pages/default.aspx	Lead portal to the State of Illinois Capital Markets
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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

ACCOUNTING PRACTICES USED IN STATE FINANCIAL INFORMATION

MEASUREMENT BASES

Financial information reported by the State is prepared and reported under one of three measurement bases.

The **cash basis** of accounting recognizes revenues when cash funds are received and ordered into the State Treasury by the Comptroller during the fiscal year. Disbursements are recognized when vouchers have been approved and released for payment by the Comptroller, again during the fiscal year.

The **budget basis** of accounting recognizes revenues using the same approach and timing as the cash basis (with the exception of transfers in when the prior fiscal year had carried over transfers due to the General Funds). Expenditures are recognized when the legal liability is incurred and sufficient appropriation authority exists. Budget basis expenditures also include disbursements made during the two month "lapse period" (for most appropriations) starting July 1 of the subsequent fiscal year. However the liability must have been incurred during the prior fiscal year and sufficient remaining appropriation authority from that fiscal year must also exist.

The **GAAP (Generally Accepted Accounting Principles) basis** of accounting recognizes revenues that were earned during the fiscal year but are actually collected and deposited during the fiscal year plus the first 60 days of the subsequent fiscal year. GAAP basis expenditures are recognized when the legal liability is incurred during the fiscal year, regardless of whether remaining appropriation authority existed from that fiscal year and irrespective of the date when the disbursement is made. Of particular note, Medicaid and group health insurance spending represent the primary instances of expenditures where appropriation authority may have been exceeded but are nevertheless disbursed by statutory authorization (i.e., Section 25 Liabilities) that permits the State to pay such liabilities using available appropriation of the subsequent fiscal year.

DIFFERENCES BETWEEN ACCOUNTING PRACTICES IN TRADITIONAL BUDGETARY FINANCIAL REPORT AND CAFR

Key differences between the accounting practices used in the TBFR and GAAP utilized in preparing the fiscal year CAFR, include the following:

Revenue Recognition:

- The TBFR recognizes as revenues those amounts collected and deposited by June 30 of each fiscal year.
- The CAFR recognizes as revenues amounts earned but collected and deposited no later than 60 days after the end of the fiscal year.

Expenditure and Liability Recognition:

- The TBFR recognizes as expenditures and liabilities only those amounts that are appropriated for that fiscal year, incurred by June 30, and paid no later than December 31 following the end of the fiscal year.
- The CAFR recognizes all expenditures that are incurred and paid by June 30, or that are legal liabilities of that fiscal year, even if such amounts exceed the appropriations for that fiscal year.
- "Section 25 Liabilities" reflect a portion of the difference in TBFR versus CAFR expenditures when insufficient appropriations exist for incurred liabilities. Section 25 refers

to statutory authorization that permits the Comptroller to pay such liabilities during the subsequent fiscal year, as shown in Table 8 in the Official Statement, "STATE FINANCIAL INFORMATION—ACCOUNTS PAYABLE–TABLE 8."

Statutory Transfers:

- The TBFR recognizes transfers in and transfers out on a modified accrual accounting basis wherein the transfer is recognized if statutorily required during a fiscal year even though the actual transfer may occur during the subsequent fiscal year. Under GAAP accounting, the CAFR only recognizes statutory transfers that have been made in cash during the fiscal year.

Pension Expenditures:

- The TBFR reflects statutorily required contributions. Amounts shown in Tables 6 and 7 represent only the General Funds portion (approximately 89% of the total required contribution) as certified by each of the five State pension systems net of the debt service on the Fiscal Year 2003 General Obligation Pension Funding Bonds pursuant to the authorizing statute, net of contributions from other State funds with payroll costs, and net of transfers from the State's Unclaimed Property Trust Fund.
- For additional differences between statutory funding requirements and GAAP and other important disclosures of the pension obligations of the State, see APPENDIX E—PENSION AND OTHER POST EMPLOYMENT BENEFITS.

Scope of General Funds:

- The TBFR and Tables 3 and 4 in the Official Statement, "STATE FINANCIAL INFORMATION—FINANCIAL RESULTS: FY 2011-FY 2015–TABLES 3 AND 4" and Table G-1 reflect the General Revenue Fund, the Common School Fund, the General Revenue-Common School Special Account Fund and the Education Assistance Fund.
- The CAFR data in Table G-2 also includes the Budget Stabilization Fund, Medicaid Provider Assessment Program Funds, and certain other funds as more fully described in Note 1 therein. See also "TABLE G-2–*Note 1*–Cash/Budget to GAAP Perspective Differences" below.

Table G-1 effectively reflects an operating statement that explains the changes during Fiscal Year 2015 in both cash balance as well as fund balance, reflecting the cash basis and budget basis, respectively. The left hand column, labeled "Available Balance Concept," reflects the cash basis results. That column details the change in Available Cash Balance at the beginning of the fiscal year, concluding with the Available Cash Balance at the end of the fiscal year. Total Revenues were detailed in Table 3, while Expenditures reflect cash disbursed during Fiscal Year 2015 which includes prior year lapse period expenditures (detailed in the middle column) as well as expenditures of Fiscal Year 2015.

The right hand column of Table G-1, labeled "Budgetary Balance Concept," reflects the budget basis results and change in budget basis fund balance during Fiscal Year 2015. Total budget basis revenues are the same as cash basis revenues for the fiscal year (with the exception of Transfers In when the prior fiscal year had carried over transfers due to the General Funds), both reflecting cash receipts during the fiscal year. Budget basis expenditures are disbursements for the Fiscal Year appropriations and statutory transfers. Total expenditures are detailed in Table 4.

Lapse period expenditures are listed in the middle column of Table G-1. Lapse period expenditures are in substance "accounts payable" and the end of column reflects the basic accounting equation of "cash less accounts payable equals budget basis fund balance." The lapse period amount (i.e., budget basis accounts payable) is subtracted from the ending cash balance resulting in a deficit or surplus.

TABLE G-1
GENERAL FUNDS SUMMARY OF TRANSACTIONS

Available Balance Concept			Budgetary Balance Concept
	BEGINNING BALANCES		
$ 74	**Available Cash Balance on June 30, 2014**		
	Less Lapse Period - Warrants Issued from Fiscal Year 2014 Appropriations and Fiscal Year 2014 Transfers Out:		
	Operations	$1,026	
	Awards and Grants	598	
	Permanent Improvements	2	
	Vouchers Payable (June 30)	1,535	
	Net Transfers Payable (June 30)	844	
	Total	$4,005	
	Fund Balance – Budgetary Basis to begin Fiscal Year 2015		**$ (3,931)**
	PLUS REVENUES		
	State Sources:		
	Cash Receipts:		
$ 18,119	Income Taxes		$ 18,119
8,030	Sales Taxes		8,030
3,427	Other Sources		3,427
3,710	Transfers In		3,745
$ 33,286	Total, State Sources		$ 33,321
	Federal Sources:		
$ 3,296	Cash Receipts		$ 3,296
35	Transfers In		35
$ 3,331	Total, Federal Sources		$ 3,331
$ 36,617	**Total, Revenues**		**$ 36,652**
	LESS EXPENDITURES		
From FY 2015 Appropriations and Lapse Period Spending from FY 2014 Appropriations			From Fiscal Year 2015 Appropriations
$ 10,643	Operations		$ 9,938
20,998	Awards and Grants		20,828
0	Refunds		0
8	Permanent Improvements		8
(459)	Vouchers Payable Adjustment		0
(11)	Prior Year Adjustments		(11)
$ 31,179	Total, Warrants Issued		$ 30,763
4,891	Transfers Out		4,858
$ 36,070	**Total, Expenditures**		**$ 35,621**
	EQUALS ENDING BALANCES		
$ 621	**Available Cash Balance on June 30, 2015**		
	Less Lapse Period – Warrants Issued from Fiscal Year 2015 Appropriations and Fiscal Year 2015 Transfers Out:		
	Operations	$ 322	
	Awards and Grants	428	
	Permanent Improvements	2	
	Vouchers Payable (June 30)	1,993	
	Net Transfers Payable (June 30)	776	
	Total	$3,521	
	Fund Balance – Budgetary Basis to begin Fiscal Year 2016		**$ (2,900)**

Source: Traditional Budgetary Financial Report Fiscal Year 2015; unaudited.

Table G-2, which is presented below, is a General Funds Reconciliation among cash, budgetary and GAAP basis of accounting for Fiscal Year 2015.

TABLE G-2
STATE OF ILLINOIS
GENERAL FUNDS RECONCILIATION – FISCAL YEAR 2015
($ in thousands)

	Cash Basis	**Adjustments for Budgetary Basis**	**Budgetary Basis**	**Adjustments for GAAP**	**GAAP Basis**
Revenues:					
Income Taxes (net)	$18,119,347	$ -	$18,119,347	$(1,466,436)	$16,652,911
Sales Taxes (net)	8,030,245	-	8,030,245	(203,286)	7,826,959
Public Utility Taxes (net)	1,005,621	-	1,005,621	41,892	1,047,513
Federal government (net)	3,295,932	-	3,295,932	7,801,512	11,097,444
Other (net)	2,420,594	(9)	2,420,585	3,129,281	5,549,866
Total revenues	32,871,739	(9)	32,871,730	9,302,963	42,174,693
Expenditures:					
Current:					
Health and Social Services	12,257,016	(643,153)	11,613,863	11,000,127	22,613,990
Education	12,949,157	424,512	13,373,669	613,376	13,987,045
General Government	3,508,443	(116,736)	3,391,707	(1,408,349)	1,983,358
Employment and Economic Development	94,892	(22,357)	72,535	72,930	145,465
Transportation	21,850	(16,627)	5,223	563,410	568,633
Public Protection and Justice	2,246,174	(40,671)	2,205,503	398,871	2,604,374
Environment and Business Regulation	88,128	(3,405)	84,723	112,521	197,244
Debt Service:					
Principal	-	-	-	1,687	1,687
Interest	-	-	-	516	516
Capital Outlays	14,973	1,136	16,109	50,531	66,640
Total expenditures	31,180,633	(417,301)	30,763,332	11,405,620	42,168,952
Excess of revenues over expenditures	1,691,106	417,292	2,108,398	(2,102,657)	5,741
Other sources (uses) of financial resources:					
Transfers-in	10,445,671	34,947	10,480,618	(7,624,317)	2,856,301
Transfers-out	(11,588,971)	30,851	(11,558,120)	8,522,912	(3,035,208)
Capital lease financing	-	-	-	737	737
Net other (uses) of financial resources	(1,143,300)	65,798	(1,077,502)	899,332	(178,170)
Excess of revenues over expenditures and net resources	547,806	483,090	1,030,896	(1,203,325)	(172,429)
Fund balances (deficit), July 1, 2014	73,611	(4,004,237)	(3,930,626)	(2,747,713)	(6,678,339)
Increase (decrease) for changes in inventories	-	-	-	(2,162)	(2,162)
Fund balances (deficit), June 30, 2015	$ 621,417	$(3,521,147)	$ (2,899,730)	$(3,953,200)	$ (6,852,930)

Source: Illinois Office of the Comptroller

GENERAL FUNDS RECONCILIATION–TABLE G-2

Table G-2 reconciles the three measurement bases used by the State: cash basis, budget basis and GAAP basis. As described above, Tables 3 and 4 in the Official Statement, "STATE FINANCIAL INFORMATION–FINANCIAL RESULTS: FY 2011-FY2015—Tables 3 and 4" and Table G-1 above reflect underlying detail between the cash and budget bases. Table G-2 draws the revenues and expenditures from those tables and incorporates GAAP basis revenues and expenditures drawn from the Fiscal Year 2015 CAFR.

Two adjustment columns are also incorporated in Table G-2 that detail the amounts necessary to adjust revenues and expenditures from cash basis to budget basis and then from budget basis to GAAP basis amounts. Table G-2 also reports the excess of revenues over expenditures (i.e., operating surplus or deficit) for Fiscal Year 2015 for the three bases equaling $548 million surplus for cash basis, $1,031 million surplus for budget basis and $172 million deficit for GAAP basis. Similarly, ending cash of $621 million, budget basis fund balance deficit of $2,900 million and GAAP basis fund balance deficit of $6,853 million, are shown in the bottom line of Table G-2.

While Table G-2 only incorporates select GAAP basis data, the complete CAFR for Fiscal Year 2015, prepared in accordance with GAAP, has been filed on EMMA and is incorporated in this Official Statement by reference. Such report is also available upon request from the Comptroller at (217) 782-6000 or from the Comptroller's webpage. See APPENDIX F—WEBSITE INDEX. The CAFR for Fiscal Year 2015 was prepared by the Comptroller and examined and certified by the State Auditor General. For Fiscal Year 2015, the Auditor General has expressed an unqualified opinion on the CAFR.

When reviewing Table G-2, the following explanatory notes should be considered in connection with the review of the CAFR for Fiscal Year 2015 (all 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 $2,899,730 equals the June 30, 2015 cash balance of $621,417 less cash lapse period expenditures and transfers-out of $3,521,147. Adjustments from the cash basis of accounting for Fiscal Year 2015 to the budgetary basis include adding Fiscal Year 2015 lapse period spending and subtracting Fiscal Year 2014 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 2015 "lapsing accounts." Public Act 97-0691 extended the lapse period to December 31 for Fiscal Year 2013 and future fiscal years for medical assistance payments of the Department of Healthcare and Family Services. Lapse period transfers are statutory transfers approved on or prior to June 30, 2015 but not made until after June 30, 2015

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 CAFR. Significant differences noted in the financial statements include recording accounts receivable, unavailable revenue and accounts payable at year-end. Accounts payable include liabilities which will be paid from future year appropriations (e.g., income tax refunds, Healthcare and Family Services 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.

APPENDIX H
GENERAL OBLIGATION BONDS REFUNDED BY THE BONDS

All of the Refunded Bonds will be redeemed on December 2, 2016 at a redemption price of par plus accrued interest to the date of redemption.

SERIES DESIGNATION	MATURITY DATE	INTEREST RATE	PAR AMOUNT	CUSIP NUMBER*
General Obligation Bonds, Series A of June 2006	06/01/2022	5.00%	$ 11,400,000	452151ZS5
	06/01/2023	5.00	11,400,000	452151ZT3
	06/01/2024	5.00	11,400,000	452151ZU0
	06/01/2025	5.00	11,400,000	452151ZV8
	06/01/2026	5.00	11,400,000	452151ZW6
	06/01/2027	5.00	11,400,000	452151ZX4
	06/01/2028	5.00	11,400,000	452151ZY2
	06/01/2029	5.00	11,400,000	452151ZZ9
	06/01/2030	5.00	11,400,000	452151A29
	06/01/2031	5.00	11,400,000	452151A37
			$114,000,000	
General Obligation Bonds, Series of January 2006	01/01/2018	5.00%	$ 13,000,000	452151XS7
	01/01/2019	5.00	13,000,000	452151XT5
	01/01/2020	5.00	13,000,000	452151XU2
	01/01/2021	5.00	13,000,000	452151XV0
	01/01/2022	5.00	13,000,000	452151XW8
	01/01/2023	5.00	13,000,000	452151XX6
	01/01/2024	5.00	13,000,000	452151XY4
	01/01/2025	5.00	13,000,000	452151XZ1
	01/01/2026	5.00	13,000,000	452151YA5
	01/01/2027	5.00	13,000,000	452151YB3
			$130,000,000	

* CUSIP is a registered trademark of American Bankers Association. CUSIP data in this Official Statement are provided by CUSIP Global Services LLC, managed on behalf of the American Bankers Association by S&P Capital Q, a part of McGraw-Hill Financial, Inc. 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 may be 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 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.

General Obligation Bonds, Series of September 2005	09/01/2017	5.00%	$ 12,000,000	452151WD1
	09/01/2018	4.25	12,000,000	452151WE9
	09/01/2019	4.00	12,000,000	452151WF6
	09/01/2020	4.50	12,000,000	452151WG4
	09/01/2021	5.00	12,000,000	452151WH2
	09/01/2022	5.00	12,000,000	452151WJ8
	09/01/2023	5.00	12,000,000	452151WK5
	09/01/2024	5.00	12,000,000	452151WL3
	09/01/2025	4.50	12,000,000	452151WM1
	09/01/2026	5.00	12,000,000	452151WN9
	09/01/2027	5.00	12,000,000	452151WP4
	09/01/2028	5.00	12,000,000	452151WQ2
	09/01/2029	5.00	12,000,000	452151WR0
			$156,000,000	
General Obligation Bonds, Series of April 2005	04/01/2018	5.00%	$ 12,600,000	452151UU5
	04/01/2019	5.00	12,600,000	452151UV3
	04/01/2020	5.00	12,600,000	452151UW1
	04/01/2021	5.00	12,600,000	452151UX9
	04/01/2022	5.00	12,600,000	452151UY7
	04/01/2023	5.00	12,600,000	452151UZ4
	04/01/2024	5.00	12,600,000	452151VA8
	04/01/2025	5.00	12,600,000	452151VB6
	04/01/2026	5.00	12,600,000	452151VC4
	04/01/2027	5.00	12,600,000	452151VD2
	04/01/2028	5.00	12,600,000	452151VE0
	04/01/2029	5.00	12,600,000	452151VF7
	04/01/2030	5.00	12,600,000	452151VG5
			$163,800,000	
General Obligation Bonds, Series of November 2004	11/01/2017	5.00%	$ 11,000,000	452151SK0
	11/01/2018	5.00	11,000,000	452151SL8
	11/01/2019	5.00	11,000,000	452151SM6
	11/01/2020	5.00	11,000,000	452151SN4
	11/01/2021	5.00	11,000,000	452151SP9
	11/01/2022	5.00	11,000,000	452151SQ7
	11/01/2023	5.00	11,000,000	452151SR5
	11/01/2024	5.00	11,000,000	452151SS3
	11/01/2025	5.00	11,000,000	452151ST1
	11/01/2026	5.00	11,000,000	452151SU8
	11/01/2027	5.00	11,000,000	452151SV6
	11/01/2028	5.00	11,000,000	452151SW4
	11/01/2029	5.00	11,000,000	452151SX2
			$143,000,000	

General Obligation Bonds, Series of September 2004	09/01/2017	5.00%	$ 11,400,000	452151RG0
	09/01/2018	5.00	11,400,000	452151RH8
	09/01/2019	5.00	11,400,000	452151RJ4
	09/01/2020	5.00	11,400,000	452151RK1
	09/01/2021	5.00	11,400,000	452151RL9
	09/01/2022	4.50	11,400,000	452151RM7
	09/01/2023	5.00	2,430,000	452152PE5
	09/01/2024	4.50	11,400,000	452151RP0
	09/01/2025	5.00	11,400,000	452151RQ8
	09/01/2026	5.00	11,400,000	452151RR6
	09/01/2027	5.00	11,400,000	452151RS4
	09/01/2028	5.00	11,400,000	452151RT2
	09/01/2029	5.00	11,400,000	452151RU9
			$139,230,000	
General Obligation Bonds, Series A of March 2004	03/01/2018	5.00%	$ 12,985,000	452151PG2
	03/01/2019	5.00	13,885,000	452151PH0
	03/01/2020	5.00	14,830,000	452151PJ6
	03/01/2021	5.00	8,030,000	452152PB1
	03/01/2022	5.00	13,140,000	452152PC9
	03/01/2025	5.00	18,925,000	452151PP2
	03/01/2028	5.00	65,000,000	452151PQ0
	03/01/2034	5.00	175,300,000	452151PR8
			$322,095,000	
General Obligation Bonds, Series A of October 2003	10/01/2017	5.00%	$19,515,000	452152NV9
	10/01/2018	5.00	15,575,000	452151MW0
	10/01/2019	5.00	22,475,000	452151MX8
	10/01/2020	5.00	2,620,000	452152NW7
			$60,185,000	
General Obligation Bonds, Series of June 2003	06/01/2019	5.00%	$ 8,365,000	452152NC1
	06/01/2020	5.00	11,215,000	452152ND9
	06/01/2021	4.25	5,000,000	452151KH5
	06/01/2025	5.00	1,975,000	452152NE7
	06/01/2026	5.00	3,330,000	452152NG2
	06/01/2026	4.55	5,000,000	452151KN2
	06/01/2027	5.00	31,595,000	452151KP7
	06/01/2028	5.00	31,590,000	452152NF4
			$98,070,000	
General Obligation Bonds, Illinois FIRST Series of October 2002	10/01/2027	4.75%	48,000,000	452151DQ3
			$48,000,000	
			$1,374,380,000	

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX I
SPECIMEN MUNICIPAL BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]

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.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

Form 500NY (5/90)

STATE OF ILLINOIS • General Obligation Refunding Bonds, Series of October 2016

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

Printed by: ImageMaster, LLC
www.imagemaster.com