

Interest on the Bonds is included in gross income of the owners thereof for federal income tax purposes. Interest on the Bonds is not exempt from present State of Illinois income taxes. See "TAX MATTERS" herein for a more complete discussion.



\$3,700,000,000
STATE OF ILLINOIS
GENERAL OBLIGATION BONDS,
Taxable Series of February 2011

Dated: Date of Delivery

Due: As shown on the inside front cover page

This Official Statement contains information relating to the State of Illinois (the "State") and the State's general obligation bonds, to be issued as General Obligation Bonds, Taxable Series of February 2011 (the "Bonds"). The Bonds will be issued only as fully registered book-entry bonds in denominations of \$5,000 or any integral thereof. The Bonds, when issued, will be registered under a global book-entry system operated by Cede & Co., as a nominee of The Depository Trust Company ("DTC"), New York, New York. See "APPENDIX C –BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES." The Bonds will bear interest at the rates shown on the inside cover of this Official Statement. Interest on the Bonds will be payable March 1 and September 1 of each year, commencing September 1, 2011. Details of payment of the Bonds are described herein.

The Bonds are subject to redemption prior to maturity as set forth herein. See "THE OFFERING – REDEMPTION."

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 fund or reimburse a portion of the obligations of the State to the State's retirement systems and to pay costs of financing, including, but not limited to, the cost of issuance of the Bonds.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Kutak Rock LLP, Chicago, Illinois, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Peck, Shaffer & Williams LLP, Chicago, Illinois, Underwriters' Counsel. Chapman and Cutler LLP, Chicago, Illinois, will act as disclosure counsel to the State solely in connection with the section entitled "PENSION SYSTEMS." It is expected that the Bonds will be available for delivery through the facilities of DTC on or about March 10, 2011.

Joint Book-Running Senior Managers

Morgan Stanley

Goldman, Sachs & Co.

Loop Capital Markets

Senior Managers

Mesirow Financial, Inc.

William Blair & Company

Co-Senior Managers

BMO Capital Markets

Edward Jones

The Northern Trust Company

Co-Managers

Estrada Hinojosa & Company, Inc. Fidelity Capital Markets George K. Baum & Company

RBC Capital Markets

Wells Fargo Bank, National Association

\$3,700,000,000
STATE OF ILLINOIS
GENERAL OBLIGATION BONDS,
TAXABLE SERIES OF FEBRUARY 2011

MATURITY SCHEDULE

MATURITY (March 1)	PRINCIPAL AMOUNT	INTEREST RATE	YIELD	PRICE	CUSIP [†]	ISIN [†]
2014	\$100,000,000	4.026%	4.026%	100.00	452152 HP9	US452152HP94
2015	300,000,000	4.511	4.511	100.00	452152 HQ7	US452152HQ77
2016	600,000,000	4.961	4.961	100.00	452152 HR5	US452152HR50
2017	900,000,000	5.365	5.365	100.00	452152 HS3	US452152HS34
2018	900,000,000	5.665	5.665	100.00	452152 HT1	US452152HT17
2019	900,000,000	5.877	5.877	100.00	452152 HU8	US452152HU89

[†] Copyright 2011, American Bankers Association. CUSIP[®] is a registered trademark of the American Bankers Association. CUSIP and ISIN data herein is provided by the CUSIP Service Bureau, operated by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP and ISIN numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the registered owners of the applicable Bonds. Neither the State nor the Underwriters are responsible for the selection or uses of these CUSIP or ISIN numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP or ISIN number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part 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.

STATE OF ILLINOIS

Pat Quinn
Governor

David Vaught
Director of the Governor's Office of Management and Budget

John Sinsheimer
Director of Capital Markets



PREFACE

No dealer, broker, salesperson, or other person has been authorized by the State of Illinois or the 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. 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 are authorized to incorporate the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective 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.

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

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

FORWARD-LOOKING STATEMENTS

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

INFORMATION COVERING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES

THE FOLLOWING INFORMATION HAS BEEN PROVIDED BY THE UNDERWRITERS FOR USE IN THE OFFERING OF THE BONDS IN THE OFFICIAL STATEMENT. THE STATE (REFERRED TO IN THESE LEGENDS AS THE “ISSUER”) MAKES NO REPRESENTATION AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION.

MINIMUM UNIT SALES

THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF \$5,000 PRINCIPAL AMOUNT), FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 20 UNITS (BEING 20 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF \$100,000).

AUSTRALIA

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN INVITATION TO APPLY FOR, OR OFFER OF, THE BONDS TO ANY OTHER PERSON. IN NO CIRCUMSTANCES MAY THIS OFFICIAL STATEMENT BE MADE AVAILABLE TO A “RETAIL CLIENT” AS DEFINED IN SECTION 761G OF THE AUSTRALIAN CORPORATIONS ACT. FURTHER, THE BONDS WILL ONLY BE ISSUED TO WHOLESALE CLIENTS.

FOR FURTHER DETAILS, AND OTHER INVESTOR ELIGIBILITY CRITERIA THAT APPLY, SEE THIS OFFICIAL STATEMENT.

THIS OFFER IS ONLY AVAILABLE TO SOPHISTICATED OR PROFESSIONAL INVESTORS UNDER SECTION 708(8) AND (11) OF AUSTRALIAN THE CORPORATIONS ACT.

THIS OFFICIAL STATEMENT IS ACCORDINGLY NOT A PROSPECTUS, OTHER KIND OF DISCLOSURE DOCUMENT OR A PRODUCT DISCLOSURE STATEMENT FOR THE PURPOSES OF THE AUSTRALIAN CORPORATIONS ACT AND HAS NOT BEEN LODGED WITH THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION. THIS OFFICIAL STATEMENT IS NOT A PRODUCT DISCLOSURE STATEMENT UNDER PART 7.9 OF THE AUSTRALIAN CORPORATIONS ACT. THIS OFFICIAL STATEMENT IS NOT REQUIRED TO, AND DOES NOT, CONTAIN ALL THE INFORMATION WHICH WOULD BE REQUIRED TO BE INCLUDED IN A DISCLOSURE DOCUMENT OR A PRODUCT DISCLOSURE STATEMENT UNDER THE AUSTRALIAN CORPORATIONS ACT.

THIS OFFICIAL STATEMENT HAS NOT BEEN PREPARED FOR AUSTRALIAN INVESTORS. IT MAY, THEREFORE, CONTAIN REFERENCES TO DOLLAR AMOUNTS WHICH ARE NOT AUSTRALIAN DOLLARS, MAY CONTAIN FINANCIAL INFORMATION WHICH IS NOT PREPARED IN ACCORDANCE WITH AUSTRALIAN LAW OR PRACTICES, MAY NOT ADDRESS RISKS ASSOCIATED WITH INVESTMENT IN FOREIGN CURRENCY DENOMINATED INVESTMENTS AND DOES NOT ADDRESS AUSTRALIAN TAX ISSUES. AUSTRALIAN INVESTORS SHOULD SEEK THEIR OWN TAX, LEGAL, INVESTMENT AND OTHER PROFESSIONAL ADVICE BEFORE MAKING AN INVESTMENT DECISION.

IF YOU ARE UNSURE OF YOUR ELIGIBILITY TO INVEST IN THE BONDS YOU SHOULD OBTAIN LEGAL ADVICE.

THE BONDS AND THE ISSUER ARE NOT, AND ARE NOT REQUIRED TO BE, REGISTERED AS A MANAGED INVESTMENT SCHEME UNDER THE AUSTRALIAN CORPORATIONS ACT.

AUSTRALIAN ARRANGER

THE UNDERWRITERS (“AUSTRALIAN ARRANGER”) ARE OFFERING TO ELIGIBLE INVESTORS IN AUSTRALIA TO ARRANGE FOR THE ISSUE OF THE BONDS IN ACCORDANCE WITH THE OFFICIAL STATEMENT. THE AUSTRALIAN ARRANGER IS AUTHORISED TO MAKE THAT OFFER IN ACCORDANCE WITH AN “INTERMEDIARY AUTHORISATION” WITHIN THE MEANING OF SECTION 911A(2)(B) OF THE AUSTRALIAN CORPORATIONS ACT.

THE AUSTRALIAN ARRANGER WILL HOLD AN APPROPRIATE AUSTRALIAN FINANCIAL SERVICES LICENCE.

THIS OFFICIAL STATEMENT DOES NOT TAKE INTO ACCOUNT ANY PERSONS' OBJECTIVES, FINANCIAL SITUATION OR NEEDS. THERE IS NO COOLING-OFF REGIME APPLICABLE IN RESPECT OF AN ACQUISITION OF THE BONDS. THE ISSUER AND THE UNDERWRITERS MAY NOT BE LICENSED UNDER THE AUSTRALIAN CORPORATIONS ACT TO PROVIDE FINANCIAL PRODUCT ADVICE IN RELATION TO BONDS.

SECONDARY SALE RESTRICTIONS

THE BONDS MUST NOT BE OFFERED FOR SALE, OR INVITATIONS FOR OFFERS TO PURCHASE THE BONDS ISSUED, UNLESS DISCLOSURE IS NOT REQUIRED UNDER PART 6D.2 OF THE CORPORATIONS ACT AND A PRODUCT DISCLOSURE STATEMENT IS NOT REQUIRED TO BE GIVEN UNDER PART 7.9 OF THE AUSTRALIAN CORPORATIONS ACT. FURTHER, THE BONDS MAY ONLY BE HELD BY WHOLESALE CLIENTS. OTHER RESTRICTIONS ON TRANSFERABILITY OF THE BONDS ARE DESCRIBED IN THIS OFFICIAL STATEMENT.

GENERAL

NO REPRESENTATION IS MADE OR WARRANTY GIVEN THAT THIS OFFICIAL STATEMENT IS A COMPLETE OR ACCURATE STATEMENT OF INFORMATION WHICH MAY BE NEEDED TO MAKE AN INVESTMENT DECISION. THE ISSUER DISCLAIMS, TO THE MAXIMUM EXTENT PERMITTED BY LAW, ALL RESPONSIBILITY FOR LOSS OR DAMAGE WHICH MAY BE SUFFERED BY ANY PERSON DIRECTLY OR INDIRECTLY THROUGH RELYING UPON THE OFFICIAL STATEMENT, WHETHER THAT LOSS OR DAMAGE IS CAUSED BY ANY FAULT OR NEGLIGENCE ON THE PART OF THE ISSUER, OR OTHERWISE. RECIPIENTS OF THIS OFFICIAL STATEMENT SHOULD RELY UPON THEIR OWN INQUIRIES AND OBTAIN INDEPENDENT LEGAL, FINANCIAL AND TAXATION ADVICE RELEVANT TO FOREIGN INVESTMENT OF THE KIND INVOLVED, PRIOR TO MAKING ANY INVESTMENT DECISION. NOTHING IN THIS OFFICIAL STATEMENT IS, OR MAY BE RELIED UPON AS, A PROMISE OR A REPRESENTATION OR A WARRANTY AS TO ANY FUTURE MATTER.

YOUR INVESTMENT IN THE BONDS IS SUBJECT TO INVESTMENT AND OTHER RISKS, INCLUDING POSSIBLE DELAYS IN REPAYMENT AND LOSS OF INCOME AND PRINCIPAL INVESTED. NEITHER THE ISSUER NOR ITS ADVISORS OR AFFILIATES GUARANTEE THE PERFORMANCE OF THE ISSUER, THE REPAYMENT OF CAPITAL OR ANY PARTICULAR RATE OF RETURN. NEITHER THE ISSUER NOR ITS ADVISORS OR AFFILIATES ARE AUTHORIZED DEPOSIT-TAKING INSTITUTIONS REGULATED BY THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY. INVESTMENTS IN THE BONDS DO NOT REPRESENT DEPOSITS WITH OR OTHER LIABILITIES OF THE ISSUER OR ITS ADVISORS AND AFFILIATES.

AUSTRIA

THIS OFFICIAL STATEMENT HAS BEEN PRODUCED FOR THE SOLE PURPOSE OF PROVIDING INFORMATION ABOUT THE BONDS DESCRIBED HEREIN TO A LIMITED NUMBER OF QUALIFIED INVESTORS AND LESS THAN 100 INVESTORS, OTHER THAN QUALIFIED INVESTORS, IN AUSTRIA. THIS OFFICIAL STATEMENT IS MADE AVAILABLE ON THE CONDITION THAT IT IS FOR THE USE ONLY BY THE RECIPIENT AS A QUALIFIED INVESTOR AND MAY NOT BE PASSED ON TO ANY OTHER PERSON OR REPRODUCED IN ANY PART. THE BONDS WILL NOT BE OFFERED IN THE COURSE OF A PUBLIC OFFERING OR OF EQUIVALENT MARKETING IN AUSTRIA AND, THEREFORE, THE PROVISIONS OF THE INVESTMENT FUND ACT 1993 (INVESTMENTFONDSGESETZ 1993) AND THE PROVISIONS OF THE CAPITAL MARKET ACT 1991 (KAPITALMARKTGESETZ 1991) RELATING TO PROSPECTUS REQUIREMENTS DO NOT APPLY. ANY ORDER BY ANY PERSON OTHER THAN THE INITIAL RECIPIENT OF THIS OFFICIAL STATEMENT WILL BE REJECTED. PAST PERFORMANCE IS NO RELIABLE INDICATOR FOR FUTURE PERFORMANCE.

AS OF THE DATE THE DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 4 NOVEMBER 2003 ON THE PROSPECTUS TO BE PUBLISHED WHEN SECURITIES ARE OFFERED TO THE PUBLIC OR ADMITTED TO TRADING AND AMENDING DIRECTIVE 2001/34/EC ("PROSPECTUS DIRECTIVE") IS IMPLEMENTED IN THE RELEVANT MEMBER STATES OF THE EUROPEAN ECONOMIC AREA (THE "IMPLEMENTATION DATE"), THE BONDS MAY BE OFFERED AND SOLD TO THE PUBLIC WITHIN SUCH MEMBER STATES OF THE EUROPEAN ECONOMIC AREA ONLY IN ACCORDANCE WITH THE PROVISIONS OF THE PROSPECTUS DIRECTIVE AND THE ACTS

AND REGULATIONS PASSED IN THE RESPECTIVE MEMBER STATES WITH REGARD TO THE IMPLEMENTATION OF THE PROSPECTUS DIRECTIVE.

BELGIUM

THE OFFERING IS EXCLUSIVELY CONDUCTED UNDER APPLICABLE PRIVATE PLACEMENT EXEMPTIONS AND THEREFORE NEITHER THIS PRIVATE PLACEMENT OFFICIAL STATEMENT NOR ANY OTHER OFFERING MATERIAL RELATED TO THE BONDS HAS BEEN OR WILL BE NOTIFIED TO, AND NEITHER THIS PRIVATE PLACEMENT OFFICIAL STATEMENT NOR ANY OTHER OFFERING MATERIAL RELATING TO THE BONDS HAS BEEN OR WILL BE APPROVED OR REVIEWED BY, THE BELGIAN BANKING, FINANCE AND INSURANCE COMMISSION (COMMISSION BANCAIRE, FINANCIERE ET DES ASSURANCES/COMMISSIE VOOR HET BANK, FINANCIE EN ASSURANTIEWEZEN) OR THE "CBFA". NOR HAS THE CBFA COMMENTED AS TO THEIR ACCURACY OR ADEQUACY OR RECOMMENDED THE PURCHASE OF THE BONDS. NOR WILL THE CBFA SO COMMENT OR RECOMMEND.

NEITHER THIS PRIVATE PLACEMENT OFFICIAL STATEMENT NOR ANY OTHER OFFERING MATERIAL RELATING TO THE BONDS MAY BE DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO ANY INVESTORS IN CIRCUMSTANCES WHICH WOULD REQUIRE THE PUBLICATION BY THE ISSUER OF A PROSPECTUS, INFORMATION CIRCULAR, BROCHURE OR SIMILAR DOCUMENT PURSUANT TO ARTICLE 3 OF THE BELGIAN LAW OF 16 JUNE 2006 ON PUBLIC OFFERINGS OF INVESTMENT INSTRUMENTS AND THE ADMISSION OF INVESTMENT INSTRUMENTS TO TRADING ON A REGULATED MARKET.

FURTHERMORE, NONE OF THE BONDS MAY BE SOLD OR OFFERED FOR SALE TO CONSUMERS AS SUCH TERM IS DEFINED IN THE BELGIAN LAW DATED 14 JULY 1991 ON COMMERCIAL PRACTICES AND THE INFORMATION AND PROTECTION OF CONSUMERS.

THIS PRIVATE PLACEMENT OFFICIAL STATEMENT AND ANY OTHER OFFERING MATERIAL RELATING TO THE BONDS THAT YOU MAY RECEIVE IS INTENDED FOR YOUR CONFIDENTIAL USE ONLY, AND MAY NOT BE REPRODUCED OR USED FOR ANY OTHER PURPOSE. ANY ACTION CONTRARY TO THESE RESTRICTIONS MAY CAUSE YOU AND US TO BE IN VIOLATION OF THE BELGIAN SECURITIES LAWS.

BRAZIL

THE BONDS MAY NOT BE OFFERED OR SOLD TO THE PUBLIC IN BRAZIL. ACCORDINGLY, THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE BRAZILIAN SECURITIES AND EXCHANGE COMMISSION (COMISSÃO DE VALORES MOBILIÁRIOS, THE "CVM"), NOR HAS IT BEEN SUBMITTED TO THE CVM FOR APPROVAL. THIS OFFICIAL STATEMENT RELATING TO THE BONDS, AS WELL AS THE INFORMATION CONTAINED HEREIN, MAY NOT BE SUPPLIED TO THE PUBLIC IN BRAZIL, AS THE OFFERING OF BONDS IS NOT A PUBLIC OFFERING OF SECURITIES IN BRAZIL, NOR USED IN CONNECTION WITH ANY OFFER FOR SUBSCRIPTION OR SALE OF SECURITIES TO THE PUBLIC IN BRAZIL. THE ISSUER MAY BE ASKED BY THE PURCHASER TO COMPLY WITH PROCEDURAL REQUIREMENTS TO EVIDENCE PREVIOUS TITLE TO THE BONDS AND MAY BE SUBJECT TO BRAZILIAN TAX ON CAPITAL GAINS WHICH MAY BE WITHHELD FROM THE SALE PRICE. PERSONS WISHING TO OFFER OR ACQUIRE THE BONDS WITHIN BRAZIL SHOULD CONSULT WITH THEIR OWN COUNSEL AS TO THE APPLICABILITY OF THESE REGISTRATION REQUIREMENTS OR ANY EXEMPTION THEREFROM.

CYPRUS

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE A PROSPECTUS UNDER CYPRUS LAW OR REGULATION AND AS SUCH IT WILL NOT BE PUBLICLY DISTRIBUTED OR MARKETED IN CYPRUS. THIS OFFICIAL STATEMENT HAS NOT BEEN FILED OR APPROVED BY THE CYPRUS SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER CYPRIOT REGULATORY AUTHORITY AS THIS OFFICIAL STATEMENT HAS NOT BEEN PREPARED IN THE CONTEXT OF A PUBLIC OFFERING OF SECURITIES IN CYPRUS WITHIN THE MEANING OF THE CYPRUS LAW ON PUBLIC OFFERINGS AND PROSPECTUSES OR ANY EXECUTIVE ORDERS ISSUED IN CONNECTION THERETO.

DENMARK

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE A PROSPECTUS UNDER ANY DANISH LAWS OR REGULATIONS AND HAS NOT BEEN FILED WITH OR APPROVED BY THE DANISH FINANCIAL SUPERVISORY AUTHORITY AS THIS OFFICIAL STATEMENT HAS NOT BEEN PREPARED IN THE CONTEXT OF EITHER (I) A PUBLIC OFFERING OF SECURITIES IN DENMARK WITHIN THE MEANING OF THE DANISH SECURITIES TRADING ETC. ACT NO. 479/2006, AS AMENDED FROM TIME TO TIME, OR ANY EXECUTIVE ORDERS ISSUED IN CONNECTION THERETO OR (II) AN OFFERING OF A COLLECTIVE INVESTMENT SCHEME COMPRISED BY THE DANISH INVESTMENT ASSOCIATION ACT NO. 55/2006, AS AMENDED FROM TIME TO TIME, OR ANY EXECUTIVE ORDERS ISSUED IN CONNECTION THERETO.

ESTONIA

THIS OFFICIAL STATEMENT IS BEING DISTRIBUTED TO A LIMITED NUMBER OF PRE-SELECTED INVESTORS AND THE BONDS MAY BE OFFERED IN ESTONIA THROUGH PRIVATE PLACEMENT ONLY. THIS OFFICIAL STATEMENT IS DIRECTED ONLY TO SUCH RECIPIENTS TO WHOM IT IS DIRECTLY ADDRESSED TO. THE OFFERING OF THE BONDS HAS NOT BEEN AND SHALL NOT BE REGISTERED UNDER THE INVESTMENT FUNDS ACT (INVESTEERIMISFONDIDE SEADUS) OF ESTONIA, OR UNDER THE SECURITIES MARKET ACT (VÄÄRTPABERITURU SEADUS) OF ESTONIA, AS A PUBLIC OFFERING, AND NO OFFER OF ANY BONDS IN ESTONIA SHALL CONSTITUTE A PUBLIC OFFERING PURSUANT TO APPLICABLE ESTONIAN LAW. THE BONDS MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, TO ANY RESIDENT OF THE REPUBLIC OF ESTONIA, OR IN THE REPUBLIC OF ESTONIA, EXCEPT PURSUANT TO THE APPLICABLE ESTONIAN LAWS AND REGULATIONS. SPECIFICALLY, THE BONDS MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, TO THE PUBLIC IN THE REPUBLIC OF ESTONIA.

FINLAND

THIS OFFERING OF BONDS IS TARGETED ONLY TO A LIMITED NUMBER OF INSTITUTIONAL INVESTORS AND DOES NOT CONSTITUTE A PUBLIC OFFERING OF THE BONDS IN FINLAND. ACCORDINGLY, THIS OFFICIAL STATEMENT HAS NOT BEEN SUBMITTED TO THE FINNISH FINANCIAL SUPERVISION AUTHORITY FOR APPROVAL. THIS OFFICIAL STATEMENT MAY NOT BE USED FOR ANY PURPOSE OTHER THAN EVALUATING A POTENTIAL INVESTMENT IN THE BONDS OFFERED HEREUNDER. THIS OFFICIAL STATEMENT IS SUBMITTED TO A LIMITED NUMBER OF PRESELECTED SOPHISTICATED INVESTORS AND MAY NOT BE RELEASED TO ANY OTHER PERSONS. NOTHING IN THIS OFFICIAL STATEMENT/MATERIAL/PRESENTATION MAY BE DEEMED TO CONSTITUTE ANY PROVISION OF INVESTMENT ADVICE.

FRANCE

THIS OFFERING OF BONDS IS TARGETED ONLY TO A LIMITED NUMBER OF INSTITUTIONAL INVESTORS AND DOES NOT CONSTITUTE A PUBLIC OFFERING OF THE BONDS IN FRANCE. ACCORDINGLY, THIS OFFICIAL STATEMENT HAS NOT BEEN SUBMITTED TO THE AUTORITÉ DES MARCHÉS FINANCIERS FOR APPROVAL. THIS OFFICIAL STATEMENT MAY NOT BE USED FOR ANY PURPOSE OTHER THAN EVALUATING A POTENTIAL INVESTMENT IN THE BONDS OFFERED HEREUNDER. THIS OFFICIAL STATEMENT IS SUBMITTED TO A LIMITED NUMBER OF INSTITUTIONAL INVESTORS AND MAY NOT BE RELEASED TO ANY OTHER PERSONS. NOTHING IN THIS OFFICIAL STATEMENT / MATERIAL / PRESENTATION MAY BE DEEMED TO CONSTITUTE ANY PROVISION OF INVESTMENT ADVICE.

GERMANY

THE BONDS WHICH ARE THE SUBJECT OF THIS OFFICIAL STATEMENT ARE NEITHER REGISTERED FOR PUBLIC DISTRIBUTION WITH THE FEDERAL FINANCIAL SUPERVISORY AUTHORITY (BUNDESANSTALT FÜR FINANZDIENSTLEISTUNGSAUFSICHT – “BAFIN”) ACCORDING TO THE GERMAN INVESTMENT ACT (INVESTMENTGESETZ) NOR LISTED ON A GERMAN EXCHANGE. NO SALES PROSPECTUS PURSUANT TO THE GERMAN INVESTMENT ACT OR THE GERMAN SECURITIES PROSPECTUS ACT (WERTPAPIERPROSPEKTGESETZ) OR THE GERMAN SALES PROSPECTUS ACT (VERKAUFSPROSPEKTGESETZ) HAS BEEN FILED WITH BAFIN.

PLEASE NOTE THE RESTRICTIONS CONCERNING INVESTORS RESIDING IN GERMANY IN THE OFFERING DOCUMENTATION. ACCORDINGLY, THE BONDS ARE ONLY OFFERED UNDER THE FOLLOWING PREREQUISITE:

GENERALLY, THE MINIMUM AMOUNT FOR EACH INVESTOR IS USD100,000, BUT THE UNDERWRITERS MAY ACCEPT IN THEIR SOLE DISCRETION LESSER AMOUNTS. HOWEVER, AS FAR AS INVESTORS RESIDING IN GERMANY ARE CONCERNED, THE UNDERWRITERS WILL UNDER NO CIRCUMSTANCES ACCEPT INVESTMENTS UNDER €50,000 PER INVESTOR. NO VIEW ON TAXATION IS EXPRESSED. PROSPECTIVE INVESTORS IN GERMANY ARE URGED TO CONSULT THEIR OWN TAX ADVISERS AS TO THE TAX CONSEQUENCES THAT MAY ARISE FROM AN INVESTMENT IN THE BONDS.

GREECE

THE BONDS HAVE NOT BEEN APPROVED BY THE GREEK CAPITAL MARKET COMMISSION FOR DISTRIBUTION TO THE PUBLIC IN GREECE. THIS OFFICIAL STATEMENT AND THE INFORMATION CONTAINED HEREIN DOES NOT AND SHALL NOT BE DEEMED TO CONSTITUTE AN INVITATION TO THE PUBLIC IN GREECE TO PURCHASE BONDS. THE BONDS MAY NOT BE DISTRIBUTED, OFFERED OR IN ANY WAY SOLD IN GREECE EXCEPT AS PERMITTED BY GREEK LAW. THE BONDS DO NOT HAVE A GUARANTEED PERFORMANCE AND PAST RETURNS DO NOT GUARANTEE FUTURE ONES. THIS OFFERING IS EXEMPT FROM THE PROSPECTUS PUBLICATION REQUIREMENT AND THE PRIOR GREEK CAPITAL MARKET COMMISSION PERMISSION REQUIREMENT AS THE OFFERING IS ADDRESSED ONLY TO QUALIFIED INVESTORS AND THE MINIMUM INVESTMENT AMOUNT PER INVESTOR IS €50,000.

HONG KONG

THE CONTENTS OF THIS OFFICIAL STATEMENT HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE OFFER. IF YOU ARE IN ANY DOUBT ABOUT ANY OF THE CONTENTS OF THIS OFFICIAL STATEMENT, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

THE BONDS MAY NOT BE OFFERED OR SOLD, BY MEANS OF ANY DOCUMENT, AND NO ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE BONDS, WHETHER IN HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG OR ELSEWHERE, SHALL BE ISSUED, CIRCULATED OR DISTRIBUTED WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC IN HONG KONG OTHER THAN (I) WITH RESPECT TO THE BONDS, WHICH ARE OR ARE INTENDED TO BE DISPOSED OF ONLY TO PERSONS OUTSIDE HONG KONG OR ONLY TO "PROFESSIONAL INVESTORS" WITHIN THE MEANING OF THE SECURITIES AND FUTURES ORDINANCE (CAP. 571) OF HONG KONG ("SFO") AND ANY RULES MADE THEREUNDER OR (II) IN CIRCUMSTANCES THAT DO NOT CONSTITUTE AN INVITATION TO THE PUBLIC FOR THE PURPOSES OF THE SFO.

HUNGARY

THIS OFFICIAL STATEMENT HAS NOT BEEN AND WILL NOT BE SUBMITTED TO THE STATE SUPERVISION OF FINANCIAL ORGANIZATIONS IN HUNGARY AND THE INVESTMENT INSTRUMENTS SPECIFIED IN THIS OFFICIAL STATEMENT WILL NOT BE OFFERED IN THE REPUBLIC OF HUNGARY IN A PUBLIC OFFER AS DEFINED IN ACT NO. CXX OF 2001 ON THE CAPITAL MARKETS ("CAPITAL MARKETS ACT").

MEMBERS OF THE GENERAL PUBLIC ARE NOT ELIGIBLE TO TAKE PART IN THIS PRIVATE PLACEMENT, AS SPECIFIED IN THIS PRIVATE PLACEMENT OFFICIAL STATEMENT. THIS OFFICIAL STATEMENT IS A CONFIDENTIAL OFFICIAL STATEMENT BEING MADE AVAILABLE TO SELECTED POTENTIAL INVESTORS UPON REQUEST AND THEIR EXCLUSIVE USE AND FOR THE PURPOSE OF ASSISTING IN DECIDING WHETHER SUCH SELECTED INVESTORS WISH TO PARTICIPATE IN THE PRIVATE PLACEMENT.

ICELAND

THIS OFFICIAL STATEMENT HAS BEEN ISSUED TO YOU FOR YOUR PERSONAL USE ONLY AND EXCLUSIVELY FOR THE PURPOSES OF THIS OFFICIAL STATEMENT . ACCORDINGLY, THIS OFFICIAL STATEMENT MAY NOT BE USED FOR ANY OTHER PURPOSE NOR PASSED ON TO ANY OTHER PERSON IN ICELAND. THE OFFERING DESCRIBED IN THIS PROSPECTUS IS A PRIVATE PLACEMENT WITH REGARD TO ICELANDIC LAW THE BONDS MAY NOT BE OFFERED OR SOLD BY MEANS OF THIS PROSPECTUS OR ANYWAY LATER RESOLD TO OTHER THAN ENTITIES OR PERSONS DEFINED AS QUALIFIED INVESTORS IN THE MEANING OF ITEM NO. 9 IN ARTICLE 43 OF THE ICELANDIC ACT ON SECURITIES TRANSACTIONS. ANY RESALE OF THE BONDS IN ICELAND WILL NEED TO TAKE PLACE IN ACCORDANCE WITH THE PROVISIONS OF THE ICELANDIC ACT ON SECURITIES TRANSACTIONS. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THE INVESTMENT.

IRELAND

THE OFFERING OF THE BONDS HAS NOT BEEN APPROVED BY, AND IS NOT REGULATED BY, THE IRISH FINANCIAL SERVICES REGULATORY AUTHORITY. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE OR FORM PART OF ANY OFFER OR INVITATION TO THE PUBLIC TO SUBSCRIBE FOR OR PURCHASE BONDS AND SHALL NOT BE CONSTRUED AS SUCH AND NO PERSON OTHER THAN THE PERSON TO WHOM THIS OFFICIAL STATEMENT HAS BEEN ADDRESSED OR DELIVERED SHALL BE ELIGIBLE TO SUBSCRIBE FOR OR PURCHASE BONDS. BONDS SHALL NOT BE MARKETED TO THE PUBLIC IN IRELAND WITHOUT THE PRIOR APPROVAL IN WRITING OF THE IRISH FINANCIAL SERVICES REGULATORY AUTHORITY.

THIS OFFICIAL STATEMENT IS STRICTLY PRIVATE AND CONFIDENTIAL AND SHOULD NOT BE DISSEMINATED OR CIRCULATED TO THE PUBLIC.

THIS OFFICIAL STATEMENT IS DIRECTED SOLELY TO CERTAIN INDIVIDUALS TO WHOM THEY ARE ADDRESSED (THE "INVESTOR"). THE INVESTMENTS OR INVESTMENT ACTIVITIES TO WHICH THIS OFFICIAL STATEMENT REFERS IS THE SUBJECT OF A PRIVATE INVITATION MADE BY THE ISSUER TO THE INVESTOR (THE "OFFER") AND ARE AVAILABLE SOLELY TO THE INVESTOR AND NO OTHER PERSON(S), DIRECTLY OR INDIRECTLY. OTHER THAN THE INVESTOR, THE ISSUER WILL NOT ENGAGE WITH ANY PERSON(S) IN RELATION TO THE DOCUMENTS. THE OFFER IS NOT AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THE APPLICABLE LAWS OF IRELAND AND IN PARTICULAR SECTION 9(1)(B) OF THE UNIT TRUSTS ACT 1990 OR WITHIN THE MEANING OF REGULATION 2 OF PART I OF THE PROSPECTUS (DIRECTIVE 2003/71/EC) REGULATIONS 2005 (THE "DIRECTIVE"). THIS OFFICIAL STATEMENT HAS NOT BEEN PREPARED IN ACCORDANCE WITH THE DIRECTIVE OR ANY MEASURES MADE UNDER THAT DIRECTIVE OR THE LAWS OF IRELAND OR OF ANY EU MEMBER STATE OR EEA TREATY ADHERENT STATE THAT IMPLEMENT THAT DIRECTIVE OR THOSE MEASURES. THEY HAVE NOT BEEN REVIEWED, APPROVED OR AUTHORIZED BY ANY REGULATORY AUTHORITY IN IRELAND, ANY OTHER EU MEMBER STATE OR ANY EEA TREATY ADHERENT STATE AND THEREFORE MAY NOT CONTAIN ALL THE INFORMATION REQUIRED WHERE A DOCUMENT IS PREPARED PURSUANT TO THE DIRECTIVE OR THOSE LAWS.

OTHER THAN THE INVESTOR, NO PERSON(S) SHOULD RELY ON THIS OFFICIAL STATEMENT OR TAKE ANY ACTION UPON THEM. IF YOU ARE NOT THE INTENDED RECIPIENT OF THIS OFFICIAL STATEMENT AND HAVE RECEIVED THEM IN ERROR YOU SHOULD RETURN THEM IMMEDIATELY. YOUR POSTAGE AND REASONABLE DELIVERY EXPENSES WILL BE REFUNDED.

THE ISSUER IS NOT SUPERVISED, APPROVED OR AUTHORIZED IN IRELAND BY THE IRISH FINANCIAL SERVICES REGULATORY AUTHORITY AND THE REGULATORY REQUIREMENTS WHICH IT IMPOSES ARE NOT APPLICABLE.

POTENTIAL INVESTORS SHOULD CONSULT A STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER FINANCIAL ADVISER AND ARE RESPONSIBLE FOR INFORMING THEMSELVES AS TO THE POSSIBLE TAX CONSEQUENCES OF AN INVESTMENT.

THE ISSUER HAS NOT MADE AND WILL NOT MAKE AN OFFER OF INTEREST TO THE PUBLIC IN IRELAND PRIOR TO THE PUBLICATION OF A PROSPECTUS IN RELATION TO AN OFFER OF

INTEREST THAT HAS BEEN APPROVED BY THE IRISH FINANCIAL SERVICES REGULATORY AUTHORITY OR WHERE APPROPRIATE, APPROVED IN ANOTHER MEMBER STATE OF THE EUROPEAN UNION AND NOTIFIED TO THE IRISH FINANCIAL SERVICES REGULATORY AUTHORITY IN IRELAND, ALL IN ACCORDANCE WITH THE PROSPECTUS DIRECTIVE 2003/71/EC, THE IRISH PROSPECTUS (DIRECTIVE 2003/71/EC) REGULATIONS, 2005, AND THE INVESTMENT FUNDS, COMPANIES AND MISCELLANEOUS PROVISIONS ACT, 2005 AND ANY SUCH MARKETING IN IRELAND IS SUBJECT TO THE PRIOR APPROVAL OF THE IRISH FINANCIAL SERVICES REGULATORY AUTHORITY.

JAPAN

THIS OFFICIAL STATEMENT AND ALL INFORMATION DISCLOSED HEREIN SHALL BE DEEMED TO BE CONFIDENTIAL INFORMATION AND ARE INTENDED SOLELY FOR THE USE OF ITS INTENDED RECIPIENTS. ANY DISCLOSURE OF THE EXISTENCE OR CONTENTS OF THIS OFFICIAL STATEMENT TO THIRD-PARTIES, AND/OR ANY TRANSLATION, DUPLICATION OR REDISTRIBUTION OF THIS OFFICIAL STATEMENT IS STRICTLY PROHIBITED. BY ACCEPTING DELIVERY OF THIS OFFICIAL STATEMENT, THE INTENDED RECIPIENT AGREES AND COVENANTS WITH THE ISSUER AND THE UNDERWRITERS TO RETURN THIS OFFICIAL STATEMENT AND ALL RELATED DOCUMENTS TO THE ISSUER AND THE UNDERWRITERS (I) IF SAID RECIPIENT ELECTS NOT TO PURCHASE ANY OF THE BONDS OFFERED OR (II) IF REQUESTED BY THE ISSUER OR THE UNDERWRITERS.

THE INTENDED RECIPIENT UNDERSTANDS AND ACKNOWLEDGES THAT UPON PURCHASING OF THE BONDS, NEITHER THE RETURN OF THE PRINCIPAL AMOUNT NOR THE DISTRIBUTION OF ANY PROFIT IS GUARANTEED. ANY INVESTMENT IN THE BONDS INVOLVES CERTAIN RISKS OF LOSS, INCLUDING BUT NOT LIMITED TO RISKS CAUSED BY FLUCTUATIONS IN INTEREST RATES, CURRENCY AND OTHER MARKET FACTORS, OR THE CREDIT RISK OF OTHER PARTIES OR AFFILIATED PARTIES THEREOF. ANY PERSON INTERESTED IN PURCHASING THE BONDS IS ADVISED TO READ THE TERMS OF INVESTMENT CAREFULLY, PAYING PARTICULAR ATTENTION TO THOSE PROVISIONS THAT RELATE TO LIMITATIONS ON THE PERIOD IN WHICH RIGHTS RELATING TO SUCH INVESTMENT CAN BE EXERCISED.

THIS SOLICITATION OF AN OFFER OF ACQUISITION RELATING TO ISSUANCE OF THE BONDS FALLS WITHIN THE “SOLICITATION FOR SMALL NUMBER INVESTORS, ETC.,” AS DEFINED UNDER PARAGRAPH 3, ARTICLE 23-13 OF THE FINANCIAL INSTRUMENTS AND EXCHANGE LAW OF JAPAN (LAW NO. 25 OF 1948, AS AMENDED, THE “FIEL”); AND NO SECURITIES REGISTRATION STATEMENT, PURSUANT TO THE PROVISIONS OF PARAGRAPH 1 OF ARTICLE 4 OF THE FIEL, HAS BEEN FILED OR WILL BE FILED REGARDING THIS SOLICITATION OF AN OFFER. THE BONDS FALL WITHIN THE RIGHTS SET FORTH IN ITEM 6, PARAGRAPH 2, ARTICLE 2 OF THE FIEL.

THE ISSUER AND THE UNDERWRITERS MAY ONLY SOLICIT OFFER OF ACQUISITION RELATING TO ISSUANCE OF THE INTEREST TO INVESTORS IN JAPAN WHO DO NOT FALL UNDER *(I)*, *(RO)* AND *(HA)* OF ITEM 1, PARAGRAPH 1, ARTICLE 63 OF THE FIEL (“JAPAN INVESTORS”) AND IS PROHIBITED FROM MAKING SUCH SOLICITATION TO INVESTORS IN JAPAN OTHER THAN THE JAPAN INVESTORS.

IF A JAPAN INVESTOR WHO ACQUIRES OR PURCHASES THE BONDS IS A QUALIFIED INSTITUTIONAL INVESTOR AS DEFINED IN ITEM 1, PARAGRAPH 3, ARTICLE 2 OF THE FIEL (“QII”), THE QII JAPAN INVESTOR SHALL BE PROHIBITED FROM ASSIGNING THE BONDS EVEN IF THE ISSUER OR UNDERWRITERS GIVE THEIR CONSENT TO SUCH ASSIGNMENT, EXCEPT IN CASE OF ASSIGNING THE BONDS TO ANOTHER QII.

IF A JAPAN INVESTOR WHO ACQUIRES OR PURCHASES THE BONDS IS NOT A QII (“NON-QII”), THE NON-QII JAPAN INVESTOR IS PROHIBITED FROM ASSIGNING THE BONDS EVEN IF THE ISSUER OR UNDERWRITERS GIVE THEIR CONSENT TO SUCH ASSIGNMENT, EXCEPT IN CASE OF ASSIGNING THE BONDS IN WHOLE TO ONE ASSIGNEE.

KUWAIT

THE BONDS HAVE NOT BEEN AUTHORIZED OR LICENSED FOR OFFERING, MARKETING OR SALE IN THE STATE OF KUWAIT PURSUANT TO LAW NO. 31 OF 1990, AS AMENDED, AND THE MINISTERIAL ORDER NO. 113 OF 1992, AS AMENDED, GOVERNING THE ISSUE, OFFERING AND SALE OF BONDS, AND AS SUCH SHALL NOT BE OFFERED OR SOLD IN THE STATE OF KUWAIT, EXCEPT IN COMPLIANCE WITH THE ABOVE LAW AS AMENDED, AND THE MINISTERIAL ORDER AS AMENDED. NO PRIVATE OR PUBLIC OFFERING OF THE BONDS IS BEING MADE IN THE STATE OF KUWAIT, AND NO AGREEMENT RELATING TO THE SALE OF SUCH BONDS WILL BE CONCLUDED IN THE STATE OF KUWAIT. NO MARKETING OR SOLICITATION OR INDUCEMENT ACTIVITIES ARE BEING USED TO OFFER OR MARKET SUCH BONDS IN THE STATE OF KUWAIT. INTERESTED INVESTORS FROM THE STATE OF KUWAIT WHO APPROACH US OR ANY OF THE UNDERWRITERS REALIZE THIS RESTRICTION, AND THAT THIS OFFERING AND ANY RELATED MATERIALS SHALL BE SUBJECT TO ALL APPLICABLE FOREIGN LAWS AND RULES; THEREFORE, THEY MUST NOT COPY OR DISTRIBUTE SUCH MATERIALS TO ANY OTHER PERSON.

LIECHTENSTEIN

THE BONDS ARE OFFERED TO A NARROWLY DEFINED CATEGORY OF INVESTORS, IN ALL CASES AND UNDER ALL CIRCUMSTANCES DESIGNED TO PRECLUDE A PUBLIC SOLICITATION. THIS OFFERING OFFICIAL STATEMENT MAY NOT BE REPRODUCED OR USED FOR ANY OTHER PURPOSE, NOR BE FURNISHED TO ANY OTHER PERSON OTHER THAN THOSE TO WHOM COPIES HAVE BEEN SENT.

LUXEMBOURG

THE LUXEMBOURG REGULATORY AUTHORITIES HAVE NEITHER REVIEWED NOR APPROVED THIS OFFICIAL STATEMENT. HAVING REGARD TO ARTICLE 76 OF THE LUXEMBOURG DECEMBER 20, 2002 LAW ON UNDERTAKINGS FOR COLLECTIVE INVESTMENT, THE BONDS ARE NOT AND MAY NOT BE OFFERED TO THE PUBLIC IN OR FROM LUXEMBOURG, AND FURTHER THEY MAY NOT BE OFFERED IN LUXEMBOURG OUTSIDE THE SCOPE OF THE EXEMPTIONS PROVIDED FOR BY ARTICLE 5 §2 OF THE LUXEMBOURG LAW OF 10 JULY 2005 ON PROSPECTUSES FOR SECURITIES. THIS OFFER HAS NOT BEEN AND MAY NOT BE ANNOUNCED TO THE PUBLIC AND OFFERING MATERIAL MAY NOT BE MADE AVAILABLE TO THE PUBLIC.

THE NETHERLANDS

THE BONDS MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED, DIRECTLY OR INDIRECTLY, IN THE NETHERLANDS, AS PART OF THEIR INITIAL DISTRIBUTION OR AT ANY TIME THEREAFTER, OTHER THAN:

(A) TO INDIVIDUALS OR LEGAL ENTITIES WHICH ARE CONSIDERED TO BE "QUALIFIED INVESTORS" (GEKWALIFICEERDE BELEGGERS) WITHIN THE MEANING OF SECTION 1:1 OF THE FINANCIAL SUPERVISION ACT (WET OP HET FINANCIËEL TOEZICHT, WFT);

(B) TO FEWER THAN 100 INDIVIDUALS OR LEGAL ENTITIES WITHIN THE NETHERLANDS (OTHER THAN THE "QUALIFIED INVESTORS" AS DESCRIBED ABOVE);

(C) FOR A TOTAL CONSIDERATION OF AT LEAST € 50,000 PER INVESTOR; OR

(D) IN CIRCUMSTANCES WHERE ANOTHER EXEMPTION OR DISPENSATION FROM BOTH THE PROHIBITION OF SECTION 2:65 WFT AND SECTION 5:2 WFT APPLIES UNDER EITHER SECTION 2:74 WFT IN CONJUNCTION WITH SECTION 4 OF THE EXEMPTION REGULATION WFT (VRIJSTELLINGSREGELING WFT) OR SECTION 5:3 WFT OR 5:5 WFT IN CONJUNCTION WITH SECTIONS 53, 54, OR 55 OF THE EXEMPTION REGULATION WFT.

NEITHER THE ISSUER NOR THE BONDS ARE SUBJECT TO (A) THE LICENSE REQUIREMENT UNDER THE WFT AND (B) THE SUPERVISION OF THE AUTHORITY FOR THE FINANCIAL MARKETS (AUTHORITEIT FINANCIËLE MARKTEN).

NEW ZEALAND

NO PROSPECTUS HAS BEEN REGISTERED WITH THE NEW ZEALAND REGISTRAR OF COMPANIES IN ACCORDANCE WITH THE SECURITIES ACT 1978 (NEW ZEALAND) (THE “SECURITIES ACT”). ACCORDINGLY, NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING MATERIALS OR ADVERTISEMENT IN RELATION TO THE BONDS (TOGETHER, THE “OFFERING DOCUMENTS AND MATERIALS”) MAY BE RECEIVED BY A PERSON IN NEW ZEALAND NOR MAY THE BONDS BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN NEW ZEALAND UNLESS THE FOLLOWING EXCEPTION APPLIES OR IN OTHER CIRCUMSTANCES WHERE THERE IS NO CONTRAVENTION OF THE SECURITIES ACT (OR ANY STATUTORY MODIFICATION OR RE-ENACTMENT OF, OR STATUTORY SUBSTITUTION FOR, THE SECURITIES ACT).

OFFERING DOCUMENTS AND MATERIALS MAY BE RECEIVED BY, AND BONDS MAY BE OFFERED OR SOLD TO, PERSONS:

(A) WHOSE PRINCIPAL BUSINESS IS THE INVESTMENT OF MONEY OR WHO, IN THE COURSE OF AND FOR THE PURPOSES OF THEIR BUSINESS, HABITUALLY INVEST MONEY; AND/OR

(B) WHO ARE EACH REQUIRED TO PAY A MINIMUM SUBSCRIPTION PRICE OF AT LEAST N.Z. \$500,000 FOR THE BONDS BEFORE THE ALLOTMENT OF THE BONDS.

NORWAY

THIS OFFICIAL STATEMENT HAS NOT BEEN PRODUCED IN ACCORDANCE WITH THE PROSPECTUS REQUIREMENTS LAID DOWN IN THE NORWEGIAN SECURITIES TRADING ACT 2007 OR IN ACCORDANCE WITH THE PROSPECTUS REQUIREMENTS LAID DOWN IN THE NORWEGIAN SECURITIES FUND ACT 1981. THIS OFFICIAL STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY, OR REGISTERED WITH, THE OSLO STOCK EXCHANGE, KREDITTILSYNET NOR THE NORWEGIAN REGISTRY OF BUSINESS ENTERPRISES.

THE OFFER TO PARTICIPATE IN THE SUBSCRIPTION OF BONDS CONTAINED IN THIS OFFICIAL STATEMENT IS ONLY AND EXCLUSIVELY DIRECTED TO THE ADDRESSEES OF THIS OFFER AND CAN NOT BE DISTRIBUTED, OFFERED OR PRESENTED, EITHER DIRECTLY OR INDIRECTLY TO OTHER PERSONS OR ENTITIES DOMICILED IN NORWAY WITHOUT THE CONSENT OF THE OFFEROR.

THE PEOPLE’S REPUBLIC OF CHINA (FOR PURPOSES OF THIS OFFICIAL STATEMENT, THE PEOPLE’S REPUBLIC OF CHINA DOES NOT INCLUDE HONG KONG, MACAU, AND TAIWAN)

THE BONDS MAY NOT BE OFFERED OR SOLD DIRECTLY OR INDIRECTLY IN THE PEOPLE’S REPUBLIC OF CHINA (WHICH, FOR SUCH PURPOSES, DOES NOT INCLUDE THE HONG KONG OR MACAU SPECIAL ADMINISTRATIVE REGIONS OR TAIWAN) (THE “PRC”). THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT WILL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY BONDS WITHIN THE PRC. THIS OFFICIAL STATEMENT OR THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT HAVE NOT BEEN AND WILL NOT BE SUBMITTED TO OR APPROVED/VERIFIED BY OR REGISTERED WITH ANY RELEVANT GOVERNMENTAL AUTHORITIES IN THE PRC AND MAY NOT BE SUPPLIED TO THE PUBLIC IN THE PRC OR USED IN CONNECTION WITH ANY OFFER FOR THE SUBSCRIPTION OR SALE OF THE BONDS IN THE PRC. THE BONDS MAY ONLY BE OFFERED OR SOLD TO PRC INVESTORS THAT ARE AUTHORIZED TO ENGAGE IN THE PURCHASE OF BONDS OF THE TYPE BEING OFFERED OR SOLD. PRC INVESTORS ARE RESPONSIBLE FOR OBTAINING ALL RELEVANT GOVERNMENT REGULATORY APPROVALS/LICENSES, VERIFICATION AND/OR REGISTRATION THEMSELVES, INCLUDING, BUT NOT LIMITED TO, ANY WHICH MAY BE REQUIRED FROM THE STATE ADMINISTRATION OF FOREIGN EXCHANGE, THE CHINA SECURITIES REGULATORY COMMISSION, THE CHINA BANKING REGULATORY COMMISSION, THE CHINA INSURANCE REGULATORY COMMISSION AND OTHER REGULATORY BODIES, AND COMPLYING WITH ALL RELEVANT PRC REGULATIONS, INCLUDING, BUT NOT LIMITED TO, ANY RELEVANT FOREIGN EXCHANGE REGULATIONS AND/OR OVERSEAS INVESTMENT REGULATIONS.

PORTUGAL

THIS OFFICIAL STATEMENT IS PRIVATE AND CONFIDENTIAL AND IS FOR THE USE SOLELY OF THE PERSON TO WHOM IT IS ADDRESSED.

NO ACTION HAS BEEN TAKEN, OR IS INTENDED TO BE TAKEN, THAT WOULD CAUSE THIS DISTRIBUTION TO BE QUALIFIED UNDER PORTUGUESE SECURITIES LAW AS A PUBLIC OFFER OF SECURITIES OR, IN PARTICULAR, AS A COMMERCIALIZATION OF INVESTMENT FUNDS, PURSUANT TO DECREE LAW NO. 252/2003, DATED AS OF OCTOBER 17, 2003, AS AMENDED.

ACCORDINGLY, THIS OFFICIAL STATEMENT SHALL NOT BE MADE AVAILABLE TO THE PUBLIC, ADVERTISED IN ANY PUBLIC MANNER IN PORTUGAL OR TO PORTUGUESE RESIDENTS OR USED FOR SOLICITATION PURPOSES TO UNDETERMINED INVESTORS IN PORTUGAL.

THIS OFFICIAL STATEMENT IS BEING MADE AVAILABLE FOR INFORMATION PURPOSES AND ON A PERSONAL AND CONFIDENTIAL BASIS EXCLUSIVELY TO PORTUGUESE “QUALIFIED INVESTORS”, WITHIN THE MEANING OF THE PORTUGUESE SECURITIES CODE, AND TO LESS THAN 100 DETERMINED PORTUGUESE “NON-QUALIFIED INVESTORS”.

SAUDI ARABIA

THIS OFFICIAL STATEMENT MAY NOT BE DISTRIBUTED IN THE KINGDOM OF SAUDI ARABIA EXCEPT TO SUCH PERSONS AS ARE PERMITTED UNDER THE OFFERS OF SECURITIES REGULATIONS ISSUED BY THE SAUDI ARABIAN CAPITAL MARKET AUTHORITY.

THE SAUDI ARABIAN CAPITAL MARKET AUTHORITY DOES NOT MAKE ANY REPRESENTATION AS TO THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS ARISING FROM, OR INCURRED IN RELIANCE UPON, ANY PART OF THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS OF THE BONDS OFFERED HEREBY SHOULD CONDUCT THEIR OWN DUE DILIGENCE ON THE ACCURACY OF THE INFORMATION RELATING TO THE BONDS. IF YOU DO NOT UNDERSTAND THE CONTENTS OF THIS OFFICIAL STATEMENT, YOU SHOULD CONSULT AN AUTHORIZED FINANCIAL ADVISER.

SINGAPORE

NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER DOCUMENT OR MATERIAL IN CONNECTION WITH ANY OFFER OF THE BONDS HAS BEEN OR WILL BE LODGED OR REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE (“MAS”) UNDER THE SECURITIES AND FUTURES ACT (CAP.289) OF SINGAPORE (“SFA”). ACCORDINGLY, THE MAS ASSUMES NO RESPONSIBILITY FOR THE CONTENTS OF THIS OFFICIAL STATEMENT. THIS OFFICIAL STATEMENT IS NOT A PROSPECTUS AS DEFINED IN THE SFA AND STATUTORY LIABILITY UNDER THE SFA IN RELATION TO THE CONTENTS OF PROSPECTUSES WOULD NOT APPLY.

THIS OFFICIAL STATEMENT AND ANY OTHER DOCUMENTS OR MATERIALS IN CONNECTION WITH THIS OFFER AND THE BONDS MAY NOT BE DIRECTLY OR INDIRECTLY ISSUED, CIRCULATED OR DISTRIBUTED, NOR MAY THE BONDS BE OFFERED OR SOLD, OR BE MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE, WHETHER DIRECTLY OR INDIRECTLY, TO PERSONS IN SINGAPORE OTHER THAN (I) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SFA; (II) TO A RELEVANT PERSON (AS DEFINED IN SECTION 275(2) OF THE SFA) PURSUANT TO SECTION 275(1) OF THE SFA; (III) TO ANY PERSON PURSUANT TO THE CONDITIONS OF SECTION 275(1A) OF THE SFA; OR (IV) OTHERWISE PURSUANT TO, AND IN ACCORDANCE WITH, THE CONDITIONS OF ANY OTHER APPLICABLE PROVISIONS OF THE SFA.

ANY SUBSEQUENT OFFERS IN SINGAPORE OF THE BONDS ACQUIRED PURSUANT TO AN INITIAL OFFER MADE IN RELIANCE ON AN EXEMPTION UNDER SECTION 274 OF THE SFA OR SECTION 275 OF THE SFA MAY ONLY BE MADE, PURSUANT TO THE REQUIREMENTS OF SECTION 276 OF THE SFA, FOR THE INITIAL SIX MONTH PERIOD AFTER SUCH ACQUISITION TO PERSONS WHO ARE INSTITUTIONAL INVESTORS (AS DEFINED IN SECTION 4A OF THE SFA) OR TO ACCREDITED INVESTORS AND CERTAIN OTHER PERSONS (AS SET OUT IN SECTION 275 OF THE

SFA). ANY TRANSFER AFTER SUCH INITIAL SIX MONTH PERIOD IN SINGAPORE SHALL BE MADE, PURSUANT TO THE REQUIREMENTS OF SECTION 257 OF THE SFA, IN RELIANCE ON ANY APPLICABLE EXEMPTION UNDER SUBDIVISION (4) OF DIVISION 1 OF PART XIII OF THE SFA.

IN ADDITION TO THE ABOVE, PURSUANT TO THE REQUIREMENTS OF SECTION 276(3) AND 276(4) OF THE SFA, WHERE THE BONDS ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 OF THE SFA BY A RELEVANT PERSON WHICH IS:

(A) A CORPORATION (WHICH IS NOT AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA)) THE SOLE BUSINESS OF WHICH IS TO HOLD INVESTMENTS AND THE ENTIRE SHARE CAPITAL OF WHICH IS OWNED BY ONE OR MORE INDIVIDUALS, EACH OF WHOM IS AN ACCREDITED INVESTOR; OR

(B) A TRUST (WHERE THE TRUSTEE IS NOT AN ACCREDITED INVESTOR) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY OF THE TRUST IS AN INDIVIDUAL WHO IS AN ACCREDITED INVESTOR,

SECURITIES (AS DEFINED IN SECTION 239(1) OF THE SFA) OF THAT CORPORATION OR THE BENEFICIARIES' RIGHTS AND INTERESTS (HOWSOEVER DESCRIBED) IN THAT TRUST SHALL NOT BE TRANSFERRED WITHIN SIX MONTHS AFTER THAT CORPORATION OR THAT TRUST HAS ACQUIRED THE BONDS PURSUANT TO AN OFFER MADE UNDER SECTION 275 OF THE SFA EXCEPT:

(1) TO AN INSTITUTIONAL INVESTOR OR TO A RELEVANT PERSON DEFINED IN SECTION 275(2) OF THE SFA, OR TO ANY PERSON ARISING FROM AN OFFER REFERRED TO IN SECTION 275(1A) OR SECTION 276(4)(I)(B) OF THE SFA;

(2) WHERE NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER;

(3) WHERE THE TRANSFER IS BY OPERATION OF LAW; OR

(4) WHERE THE BONDS WERE PREVIOUSLY OFFERED AND MADE IN OR ACCOMPANIED BY A PROSPECTUS AND WHICH ARE OF THE SAME CLASS AS OTHER SECURITIES OF A CORPORATION LISTED ON THE SINGAPORE EXCHANGE BONDS TRADING LIMITED.

SPAIN

THE OFFER OF BONDS HAS NOT BE REGISTERED WITH AND AUTHORIZED BY THE SPANISH SECURITIES COMMISSION. ACCORDINGLY, NO BONDS MAY BE OFFERED OR SOLD IN THE KINGDOM OF SPAIN NOR ANY DOCUMENT OR OFFER MATERIAL BE DISTRIBUTED IN SPAIN OR TARGETED AT SPANISH RESIDENTS SAVE IN COMPLIANCE AND IN ACCORDANCE WITH THE REQUIREMENTS SET OUT IN LAW 35/2003 AND THE REGULATION ISSUED THEREUNDER.

SWEDEN

NEITHER THE ISSUER NOR THE UNDERWRITERS ARE AUTHORISED UNDER THE SWEDISH INVESTMENT FUNDS ACT. THE BONDS ARE BEING OFFERED TO A LIMITED NUMBER OF INSTITUTIONAL INVESTORS AND, THEREFORE, THIS OFFICIAL STATEMENT HAS NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE SWEDISH FINANCIAL SUPERVISORY AUTHORITY UNDER THE SWEDISH FINANCIAL INSTRUMENTS TRADING ACT (1991:980). ACCORDINGLY, THIS OFFICIAL STATEMENT MAY NOT BE MADE AVAILABLE, NOR MAY THE BONDS OTHERWISE BE MARKETED AND OFFERED FOR SALE IN SWEDEN, OTHER THAN IN CIRCUMSTANCES WHICH ARE DEEMED NOT TO BE AN OFFER TO THE PUBLIC IN SWEDEN UNDER THE FINANCIAL INSTRUMENTS TRADING ACT.

SWITZERLAND

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN ISSUE PROSPECTUS PURSUANT ART 652A OR ART 1156 OF THE SWISS CODE OF OBLIGATIONS AND THE ISSUER HAS NOT AND WILL NOT REGISTER WITH THE SWISS FEDERAL BANKING COMMISSION AS A FOREIGN INVESTMENT FUND. THE PRODUCTS WILL NOT BE LISTED ON THE SWX SWISS EXCHANGE AND, THEREFORE, THE OFFICIAL STATEMENT MAY NOT COMPLY WITH THE DISCLOSURE STANDARDS OF THE LISTING RULES OF THE SWX SWISS EXCHANGE.

ACCORDINGLY, THE PRODUCTS MAY NOT BE OFFERED TO THE PUBLIC IN OR FROM SWITZERLAND, BUT ONLY TO A SELECTED AND LIMITED CIRCLE OF INVESTORS. THE INVESTORS WILL BE INDIVIDUALLY APPROACHED BY THE ISSUER FROM TIME TO TIME. THIS OFFICIAL STATEMENT IS PERSONAL TO EACH OFFEREE AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON. THE OFFERING OFFICIAL STATEMENT MAY ONLY BE USED BY THOSE PERSONS TO WHOM IT HAS BEEN HANDED OUT IN CONNECTION WITH THE OFFER DESCRIBED THEREIN AND MAY NEITHER BE COPIED OR DIRECTLY NOR INDIRECTLY BE DISTRIBUTED OR MADE AVAILABLE TO OTHER PERSONS WITHOUT EXPRESS CONSENT OF THE ISSUER. THE OFFEREE MAY NOT SELL OR OFFER THE PRODUCTS TO ANY OTHER PERSON EXCEPT TO (I) REGULATED FINANCIAL INTERMEDIARIES (SUCH AS BANKS, SECURITIES DEALERS AND FUND MANAGEMENT COMPANIES), (II) INSURANCE COMPANIES, (III) PUBLIC ENTITIES AND PENSION FUNDS WITH PROFESSIONAL TREASURY OPERATIONS AS DEFINED BY THE PRACTICE OF THE FBC, (IV) COMPANIES WITH PROFESSIONAL TREASURY OPERATIONS AS DEFINED BY THE PRACTICE OF THE FBC, (V) HIGH NET WORTH INDIVIDUALS (INDIVIDUALS WHO HAVE CONFIRMED TO A BANK, SECURITIES DEALER, FUND MANAGEMENT COMPANY OR INDEPENDENT ASSET MANAGER IN WRITING, THAT, AT THE TIME OF PURCHASE, THEY DIRECTLY OR INDIRECTLY HOLD FINANCIAL INVESTMENTS OF TWO MILLION SWISS FRANCS) OR (VI) INVESTORS WHO HAVE ENTERED INTO A DISCRETIONARY MANAGEMENT AGREEMENT WITH A BANK, SECURITIES DEALER, OR FUND MANAGEMENT COMPANY OR WITH AN INDEPENDENT ASSET MANAGER SUBJECT TO THE SWISS ANTI-MONEY LAUNDERING LEGISLATION AND TO A CODE OF CONDUCT RECOGNIZED BY THE FBC.

TAIWAN

THE BONDS ARE BEING MADE AVAILABLE IN TAIWAN ON A PRIVATE PLACEMENT BASIS ONLY TO BANKS, BILLS HOUSES, TRUST ENTERPRISES, FINANCIAL HOLDING COMPANIES AND OTHER QUALIFIED ENTITIES OR INSTITUTIONS (COLLECTIVELY, “QUALIFIED INSTITUTIONS”) AND OTHER ENTITIES AND INDIVIDUALS MEETING SPECIFIC CRITERIA (“OTHER QUALIFIED INVESTORS”) PURSUANT TO THE PRIVATE PLACEMENT PROVISIONS OF THE TAIWAN RULES GOVERNING OFFSHORE FUNDS. NO OTHER OFFER OR SALE OF THE BONDS IN TAIWAN IS PERMITTED. TAIWAN PURCHASERS OF THE BONDS MAY NOT SELL OR OTHERWISE DISPOSE OF THEIR HOLDINGS EXCEPT BY REDEMPTION, TRANSFER TO A QUALIFIED INSTITUTION OR OTHER QUALIFIED INVESTOR, TRANSFER BY OPERATION OF LAW OR OTHER MEANS APPROVED BY THE TAIWAN FINANCIAL SUPERVISORY COMMISSION.

UNITED ARAB EMIRATES

THE BONDS OFFERED ARE NOT REGULATED UNDER THE LAWS OF THE UNITED ARAB EMIRATES (“UAE”) RELATING TO FUNDS, INVESTMENTS OR OTHERWISE. NEITHER THE ISSUER NOR THE UNDERWRITERS NOR THIS OFFICIAL STATEMENT HAS BEEN APPROVED BY THE UAE CENTRAL BANK OR ANY OTHER REGULATORY AUTHORITY IN THE UAE. THIS OFFICIAL STATEMENT IS BEING DISTRIBUTED TO A LIMITED NUMBER OF SELECTED INSTITUTIONAL AND OTHER SOPHISTICATED HIGH NET WORTH INVESTORS UPON THEIR REQUEST AND CONFIRMATION THAT THEY UNDERSTAND, ACKNOWLEDGE AND AGREE THAT:

(A) THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE A PUBLIC OFFER OF SECURITIES IN THE UAE IN ACCORDANCE WITH THE APPLICABLE FINANCIAL SERVICES LAWS OF THE UAE AND IS NOT AN ADVERTISEMENT OR SOLICITATION TO THE GENERAL PUBLIC OF THE UAE;

(B) THIS OFFICIAL STATEMENT IS STRICTLY PRIVATE AND CONFIDENTIAL AND IS INTENDED ONLY FOR THE ORIGINAL RECIPIENTS HEREOF TO WHOM THIS OFFICIAL STATEMENT IS PERSONALLY PROVIDED AND MAY NOT BE REPRODUCED OR USED FOR ANY OTHER PURPOSE;

(C) THIS OFFICIAL STATEMENT IS FOR INFORMATIONAL PURPOSES ONLY AND NOTHING CONTAINED HEREIN IS INTENDED TO CONSTITUTE UAE INVESTMENT, LEGAL, TAX ACCOUNTING OR OTHER PROFESSIONAL ADVICE (YOU SHOULD CONSULT WITH AN APPROPRIATE PROFESSIONAL FOR SPECIFIC ADVICE RENDERED ON THE BASIS OF YOUR SITUATION AND CIRCUMSTANCES);

(D) THE BONDS HAVE NOT BEEN AND WILL NOT BE MARKETED FROM WITHIN THE UAE AND NO SUBSCRIPTION OF THE BONDS WILL BE CONSUMMATED WITHIN THE UAE; AND

(E) THE ISSUER AND THE UNDERWRITERS ARE NOT LICENSED TO ACT AS A BROKER OR INVESTMENT ADVISOR IN THE UAE AND DO NOT ADVISE PERSONS RESIDENT IN THE UAE AS TO THE APPROPRIATENESS OF INVESTING IN OR PURCHASING OR SELLING SECURITIES OR OTHER FINANCIAL PRODUCTS.

THE BONDS REFERRED TO IN THIS OFFICIAL STATEMENT ARE NOT OFFERED OR INTENDED TO BE SOLD DIRECTLY OR INDIRECTLY TO THE PUBLIC IN THE UAE. FURTHER, THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT IS NOT INTENDED TO LEAD TO THE CONCLUSION OF ANY CONTRACT OF ANY NATURE WITHIN THE TERRITORY OF THE UAE.

UNITED KINGDOM

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\$3,700,000,000
State of Illinois
General Obligation Bonds,
Taxable Series of February 2011

INTRODUCTION

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

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 \$3,700,000,000 General Obligation Bonds, Taxable Series of February 2011 (the “Bonds”). The Bonds are being issued to fund or reimburse a portion of the State’s obligation to make contributions to the Retirement Systems (as defined herein) and to pay costs of financing, including, but not limited to, the costs of issuance of the Bonds. The Bonds are issued pursuant to the provisions of the General Obligation Bond Act of the State of Illinois, as amended (the “Bond Act”).

Illinois is a sovereign state of the United States and is an issuer of debt securities. The State’s powers and functions are subject to the Illinois Constitution of 1970 (the “Illinois Constitution”) and to laws adopted by the Illinois General Assembly (the “General Assembly”), limited only by federal law and jurisdiction. See “STATE OF ILLINOIS.”

The State has diversified economic strengths. Measured by per capita personal income, the State ranks fourth among the ten most populous states and fourteenth among all states. Illinois ranks third among all states in total cash receipts from crops, second in agricultural exports and ranks among the top states in several measures of manufacturing activity. Chicago, the largest city in the State, is the third most populous city in the United States and serves as the transportation center of the Midwestern U.S. and the headquarters of many of the nation’s major corporations and financial institutions. See “STATE OF ILLINOIS” and “APPENDIX A” for sources and further information regarding the State.

SECURITY

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

TAX TREATMENT OF INTEREST

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

AUTHORITY FOR ISSUANCE

The Bond Act authorizes the State to issue and sell direct, general obligations of the State (the “GO Bonds”), including the Bonds, for purposes other than refunding, in the currently authorized aggregate principal amount of \$40,583,125,743. The Bond Act further authorizes the issuance of GO Bonds in the amount of up to \$4,839,025,000, at any time and from time-to-time outstanding, for the purpose of refunding any outstanding GO Bonds. The total amount of GO Bonds outstanding is \$28,140,092,968. The Bond Act consolidated the authorization contained in prior bond acts into a single act. See

“INDEBTEDNESS – GENERAL OBLIGATION BONDS” for a description of the authorized and previously issued GO Bonds under the Bond Act and prior bond acts.

The Bonds are being issued pursuant to authorization contained in Public Act 96-1497 for the purpose of reimbursing or funding a portion of the State’s obligation to make its Fiscal Year 2011 contributions to the State Employees’ Retirement System of Illinois, the Teachers’ Retirement System of the State of Illinois, the State Universities Retirement System, the Judges Retirement System of Illinois and the General Assembly Retirement System (collectively, the “Retirement Systems”) required by the Illinois Pension Code (the “Pension Code”).

Amendments to the Bond Act, effective July 30, 2004 (the “Amendments”), placed certain restrictions on the issuance of GO Bonds; however, these restrictions and limitations are not applicable to the Bonds pursuant to Public Act 96-1497. The Amendments include the following: (i) at least 25% of the GO Bonds issued within a fiscal year must be sold pursuant to notice of sale and public bid; (ii) GO Bonds must be issued with principal or mandatory redemption amounts in equal amounts in each fiscal year beginning the year following issuance and for a term not to exceed 25 years, with the first maturity issued occurring within the fiscal year in which the GO Bonds are issued or within the next succeeding fiscal year; and (iii) GO Bonds may not be issued if, after their issuance, in the next State fiscal year, the amount of debt service on all then-outstanding GO Bonds exceeds 7% of the General Funds (as described in Table 1 under the heading “STATE FINANCIAL INFORMATION”) and Road Fund appropriations for the fiscal year immediately prior to the fiscal year of the issuance (the Illinois State Treasurer (the “Treasurer”) and Illinois State Comptroller (the “Comptroller”), acting together, can waive this requirement). The amendments also require the Governor’s Office of Management and Budget (“GOMB”) to comply with the Business Enterprise for Minorities, Females, and Persons with Disabilities Act (30 ILCS 575/1, *et seq.*) in respect to procuring services for the issuance of GO Bonds.

The General Assembly has recently passed and the Governor signed into law significant legislation which will immediately impact revenues and expenditures of the State and the State’s budgeting process. See “STATE FINANCIAL INFORMATION – SELECT RECENT LEGISLATIVE DEVELOPMENTS.”

THE OFFERING

DESCRIPTION OF BONDS

The Bonds will bear interest from their issue date and will mature on March 1 of each of the years and in the amounts set forth on the inside front cover page of this Official Statement. Interest on the Bonds is payable semiannually on the first days of March and September of each year, beginning on September 1, 2011, at the rates per annum for each maturity as set forth on the inside front cover page of this Official Statement. Interest payable on a date that is not a Business Day (as hereinafter defined) will be payable on the immediately succeeding Business Day.

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—BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.”

ANNUAL DEBT SERVICE REQUIREMENTS

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

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2012	\$ 0	\$ 194,500,800	\$ 194,500,800
2013	0	199,488,000	199,488,000
2014	100,000,000	199,488,000	299,488,000
2015	300,000,000	195,462,000	495,462,000
2016	600,000,000	181,929,000	781,929,000
2017	900,000,000	152,163,000	1,052,163,000
2018	900,000,000	103,878,000	1,003,878,000
2019	<u>900,000,000</u>	<u>52,893,000</u>	<u>952,893,000</u>
	\$3,700,000,000	\$1,279,801,800	\$4,979,801,800

REDEMPTION

OPTIONAL REDEMPTION

The Bonds are subject to redemption prior to maturity at the option of the State on any Business Day, in whole or in part, and if in part, selected as described under “—*Redemption Procedure*” below, in integral multiples of \$5,000, at a redemption price equal to the Make-Whole Redemption Price. The “Make-Whole Redemption Price” is the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 40 basis points with respect to the Bonds, plus accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

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

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

It is the State's intent that redemption allocations of Bonds made by DTC be made on a pro-rata pass-through distribution of principal basis as described above. However, none of the State or the Underwriters can provide any assurance that DTC, DTC's Participants or any other intermediary will allocate the redemption of Bonds on such basis, nor will the State or the Underwriters be responsible for any failure of DTC, DTC's Participants or any other intermediary to do so. If the DTC operational arrangements do not allow for the redemption of Bonds on a pro-rata pass-through distribution of principal basis, then the Bonds to be redeemed will be selected for redemption on a pro-rata basis.

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

Failure to give the notice of redemption required above as to any Bond, or any defect therein as to any Bond, will not affect the validity of the proceedings for the redemption of any other Bond. Any notice given as described above shall be conclusively presumed to have been given whether or not actually received by the appropriate addressee. With respect to an optional redemption of any Bonds, such notice may, at the option of the State, provide that said redemption is conditioned upon the receipt by the Bond Registrar on or prior to the date fixed for redemption of moneys sufficient to pay the applicable Make-Whole 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 Make-Whole 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 State Treasurer shall provide for deposit with the Bond Registrar of an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date.

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

PLAN OF FINANCE

The net proceeds of sale of the Bonds will be deposited into the Pension Contribution Fund of the State and the Comptroller and the Treasurer as soon as practical thereafter shall, (i) first, transfer to the General Revenue Fund and to the Common School Fund an amount equal to the amounts of the payments made to the Retirement Systems from the General Revenue Fund and the Common School Fund, respectively, in the State fiscal year 2011 and (ii) next, make transfers to the Retirement Systems pursuant to the provisions of the Pension Code. See "THE OFFERING - APPLICATION OF BOND PROCEEDS." For further information regarding the funding of the Retirement Systems, see "PENSION SYSTEMS."

APPLICATION OF BOND PROCEEDS

The Bond proceeds will be applied approximately as set forth below:

Sources:	
Principal Amount Issued	<u>\$3,700,000,000.00</u>
Total Sources	<u>\$3,700,000,000.00</u>
Uses:	
Fund or Reimburse Pension Contributions	\$3,680,302,000.00
Additional Proceeds to the State	3,269,709.67
Underwriters' Discount	15,362,290.33
Issuance Expenses	<u>1,066,000.00</u>
Total Uses	<u>\$3,700,000,000.00</u>

SECURITY

DIRECT, GENERAL OBLIGATIONS

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

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

STATE FUNDING PAYMENTS

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

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

If for any reason there are insufficient funds in the General Revenue Fund, or with respect to bonds issued for Transportation A-Highway purposes (or bonds issued to refund bonds issued for such purposes) in the Road Fund, to make transfers to the GOBRI Fund as required by the Bond Act, or if for any reason the General Assembly fails to make appropriations sufficient to pay the principal of, interest on and premium, if any, on the GO Bonds, when due, the Bond Act constitutes an irrevocable and continuing appropriation of all amounts necessary for that purpose, and the irrevocable and continuing authority for and direction to the Treasurer and the Comptroller to make the necessary transfers, as directed by the Governor, out of and disbursements from the revenues and funds of the State.

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

On or before the last day of each month, the Bond Act requires the Treasurer and Comptroller to transfer from the General Revenue Fund, or with respect to GO Bonds issued for Transportation A-Highway

purposes (or GO Bonds issued to refund GO Bonds issued for such purposes) the Road Fund, to the GOBRI Fund an amount sufficient to pay the aggregate of the principal of and interest on such GO Bonds payable by their terms on the next payment date divided by the number of full calendar months between the date of the 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. This transfer of moneys is not required if moneys in the GOBRI Fund are more than the amount otherwise to be transferred as hereinabove provided, and if the Governor or his authorized representative notifies the Treasurer and Comptroller of such fact in writing.

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

INVESTMENT OF FUNDS

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

STATE OF ILLINOIS

ORGANIZATION

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

The Illinois Constitution provides that all elected officials of the Executive Branch of the State government hold office for four-year terms. Pursuant to the State Constitution, these officials were elected at a general election in November 2010 and took office as of January 10, 2011. The current Governor, Pat Quinn, was elected Lieutenant Governor at a general election in November 2006, took office as Lieutenant Governor on January 8, 2007, took office as Governor on January 30, 2009, was elected to a new term as Governor at the November 2010 general election and took office as Governor for such new term on January 10, 2011.

The legislative power of the State is vested in the General Assembly, which is composed of the Senate and the House of Representatives. Both the Senate and the House of Representatives meet in annual sessions to enact, amend or repeal laws and to adopt appropriation bills.

The judicial branch is composed of the Supreme Court, the Appellate Courts and the Circuit Courts.

CONSTITUTIONAL PROVISIONS RELATING TO REVENUES AND EXPENDITURES

Article VIII, Section 2 of the State Constitution requires the Governor to prepare and submit to the General Assembly, at a time prescribed by law, a State budget for the ensuing fiscal year. Proposed expenditures may not exceed funds estimated to be available for the fiscal year as shown in the budget.

Article VIII, Section 2 also requires the General Assembly to review the proposed budget and make appropriations for all expenditures of public funds by the State, which appropriations for a fiscal year may not exceed funds estimated by the General Assembly to be available during that fiscal year.

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

CONSTITUTIONAL PROVISIONS RELATING TO LONG-TERM BORROWING

Section 9(a) of Article IX of the State 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”

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

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

CONSTITUTIONAL PROVISIONS RELATING TO REFUNDINGS

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

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

CONSTITUTIONAL PROVISIONS RELATING TO SHORT-TERM BORROWING

Section 9(c) and 9(d) of Article IX of the State Constitution, pursuant to which the Short Term Borrowing Act was enacted, states:

- (c) State debt in anticipation of revenues to be collected in a fiscal year may be incurred by law in an amount not exceeding 5% of the State’s appropriations for that fiscal year. Such debt shall be retired from the revenues realized in that fiscal year.
- (d) State debt may be incurred by law in an amount not exceeding 15% of the State’s appropriations for that fiscal year to meet deficits caused by emergencies or failures of revenue. Such law shall provide that the debt be repaid within one year of the date it is incurred.

GOVERNOR’S OFFICE OF MANAGEMENT AND BUDGET

GOMB was created in 2003 by the Governor’s Office of Management and Budget Act (20 ILCS 3005/1 *et seq.*). GOMB’s predecessor in managing State debt was the Bureau of the Budget, created in 1969 by act of the General Assembly. GOMB is headed by the Director, who is appointed by the Governor. In addition to assisting the Governor in developing the State’s annual operating and capital budgets, GOMB provides financial and other information regarding the State to securities investors, the Municipal Securities Rulemaking Board under EMMA and others as required by federal securities rules. See “CONTINUING DISCLOSURE” and “APPENDIX D – CONTINUING DISCLOSURE UNDERTAKING.”

STATE FINANCIAL INFORMATION

The tables that follow present pertinent financial information about the State. Data is for the State's fiscal years which run from July 1 through June 30. Tables 1, 1A, 2, 4A and 6 of this section, unless otherwise noted, are based on information contained in detailed annual reports or records of the Office of the Comptroller. The Fiscal Year 2009 Comprehensive Annual Financial Report ("2009 CAFR") may be found at: http://www.apps.ioc.state.il.us/ioc-pdf/CAFR_2009.pdf. Tables 3, 4 and 5 are based on records of the GOMB, though Tables 4 and 5 also include information drawn from various reports or records of the Comptroller. For purposes of Tables 1 and 2 of this section, expenditures are deemed to be recognized when payment warrants are issued.

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TABLE 1
RECEIPTS AND DISBURSEMENTS¹, GENERAL FUNDS²
FISCAL YEARS 2006-2010
(\$ IN MILLIONS)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Available Balance, Beginning	\$497	\$590	\$642	\$141	\$280
Receipts					
State Revenues					
Income Tax	\$10,063	\$11,158	\$12,180	\$10,933	\$9,871
Sales Tax	\$7,092	\$7,136	\$7,215	\$6,773	\$6,308
Public Utility Tax	\$1,074	\$1,131	\$1,157	\$1,168	\$1,089
Cigarette Tax	\$400	\$350	\$350	\$350	\$355
Inheritance Tax	\$272	\$264	\$373	\$288	\$243
Liquor Gallonage Tax	\$152	\$156	\$158	\$158	\$159
Insurance Tax & Fees	\$317	\$310	\$298	\$334	\$322
Corporate Franchise Tax	\$181	\$193	\$225	\$201	\$208
Investment Income	\$153	\$204	\$212	\$81	\$26
Intergovernmental Transfers	\$350	\$307	\$302	\$253	\$244
Other	\$479	\$482	\$474	\$445	\$462
Total, State Revenues	\$20,533	\$21,691	\$22,944	\$20,984	\$19,287
Federal Revenues					
Medicaid & Social Services	\$4,725	\$4,703	\$4,815	\$6,567	\$5,920
Transfers In					
From Other State Funds ³	\$2,101	\$2,246	\$1,900	\$1,593	\$1,884
Total Revenues	\$27,359	\$28,640	\$29,659	\$29,144	\$27,090
Short-Term Borrowing	\$1,000	\$900	\$2,400	\$2,400	\$1,250
Proceeds from Pension Obligation Note Borrowing	-	-	-	-	\$843
Total Cash Receipts³	\$28,359	\$29,540	\$32,059	\$31,544	\$29,183
Cash Disbursements					
Expenditures for Appropriations (See Table 1-A)	\$24,193	\$25,604	\$26,959	\$26,982	\$23,942
Pension Obligation	-	-	-	-	\$843
Transfers Out					
Short-Term Borrowing ^{5,6}	\$1,014	\$911	\$2,400	\$1,424	\$2,277
Debt Service Funds ⁷	\$1,026	\$1,064	\$1,132	\$1,102	\$1,313
Other State Funds ³	\$2,033	\$1,910	\$2,069	\$1,897	\$958
Total Cash Disbursements	\$28,266	\$29,489	\$32,560	\$31,405	\$29,333
Cash Balance, Ending	\$590	\$642	\$141	\$280	\$130

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

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

³ Excludes transfers to and from the Budget Stabilization Fund.

⁴ Transfers In reflects the net amount between \$982 million received and the \$979 million transferred out to the Hospital Provider Fund.

⁵ See "INDEBTEDNESS" section for additional information.

⁶ Fiscal Year 2007 amount of \$911 million reflects various transfers that result in retirement of the Fiscal Year 2007 G.O. Certificates.

⁷ Reflects debt service on G.O. Bonds and interest due on PONs.

Note: Columns may not add due to rounding.

TABLE 1A
CASH EXPENDITURES BY CATEGORY¹
FISCAL YEARS 2006-2010
(\$ IN MILLIONS)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Cash Expenditures					
Operations	\$6,390	\$6,656	\$6,906	\$7,332	\$7,223
Awards and Grants	17,616	18,695	20,247	22,035	18,529
Permanent Improvements	11	10	10	5	2
Refunds	16	20	18	15	-
Vouchers Payable Adjustment	170	234	(208)	(2,392)	(952)
Prior Year Adjustments	(10)	(11)	(14)	(14)	(17)
Total Cash Expenditures	\$24,193	\$25,604	\$26,959	\$26,981	\$24,785

¹ Based on information from the Office of the Comptroller.

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TABLE 2
RECEIPTS AND DISBURSEMENTS¹ - ROAD FUND
FISCAL YEARS 2006-2010
(\$ IN MILLIONS)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Available Balance, Beginning	\$312	\$777	\$421	\$388	\$418
Receipts					
State Revenues					
Motor Vehicle & License Fees	770	746	747	772	762
Certificates of Title	91	88	85	77	74
Property Sales (City & County)	58	64	72	68	76
Miscellaneous	63	93	73	124	558
Total, State Revenues	\$982	\$991	\$978	\$1,041	\$1,471
Federal Revenues	1,024	1,020	1,257	1,234	1,276
Transfers In					
Motor Fuel Fund	337	385	335	317	300
Other Funds	-	-	-	-	-
Total Receipts (Revenues + Transfers In)	\$2,343	\$2,396	\$2,570	\$2,593	\$3,047
Disbursements					
Expenditures for Appropriations	1,592	2,428	2,312	2,285	2,575
Transfers Out					
Debt Service Funds ²	249	255	258	245	296
Other State Funds	37	69	32	35	39
Total Transfers Out	286	324	291	279	335
Total Disbursements (Expenditures + Transfers Out)	\$1,878	\$2,752	\$2,602	\$2,564	\$2,910
Cash Balance, Ending	\$777	\$421	\$388	\$418	\$554

¹ Based on information from the Office of the Comptroller

² Reflects debt service on General Obligation Bonds

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TABLE 3
GENERAL FUNDS APPROPRIATIONS¹
FY 2010 vs. FY 2011 BUDGET
(\$ IN MILLIONS)

Category	FY10 Actual	FY11 Preliminary	\$ Change	% Change
Elementary & Secondary Education	\$7,325	\$7,070	-\$255	-3.48%
Higher Education	\$2,233	\$2,129	-\$104	-4.67%
Healthcare & Family Services (Public Aid)	\$7,853	\$8,001	\$147	1.88%
Revenue	\$143	\$128	-\$15	-10.50%
Human Services	\$4,047	\$3,704	-\$343	-8.49%
Corrections	\$1,177	\$1,135	-\$42	-3.56%
Children & Family Services	\$865	\$859	-\$6	-0.69%
Central Management Services	\$90	\$86	-\$4	-4.53%
State Police	\$287	\$278	-\$9	-3.29%
Other Agencies	\$2,337	\$2,426	\$89	3.82%
Net Appropriations (Spending)	\$26,357	\$25,814	-\$543	-2.06%
Unspent Appropriations (Salvage)	-\$1,099	-\$891	\$208	-18.93%
Budgeted Appropriations	\$25,258	\$24,923	-\$335	-1.33%

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

*FY10 Actual is the Actual Appropriation, not Expenditures.

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TABLE 4
GENERAL FUNDS CASH RECEIPTS¹
FY 2009 ACTUAL VS. FY 2010 BUDGET & ACTUAL
(\$ IN MILLIONS)

	FY 2009 Actual	FY 2010 Budget	FY 2010 Actual	FY 2010 vs. 2009	Percent Change²
Cash Receipts					
State Sources, Cash Receipts:					
Net Individual Income Tax	\$9,223	\$8,460	\$8,511	(\$712)	-7.72%
Net Corporate Income Tax	\$1,710	\$1,310	\$1,360	(\$350)	-20.47%
Net Income Taxes	\$10,933	\$9,770	\$9,871	(\$1,062)	-9.71%
Sales Taxes	\$6,773	\$6,200	\$6,308	(\$465)	-6.87%
Other Sources					
Public Utility Taxes	\$1,168	\$1,115	\$1,089	(\$79)	-6.76%
Cigarette Taxes	\$350	\$350	\$355	\$5	1.43%
Inheritance Tax (gross)	\$288	\$278	\$243	(\$45)	-15.63%
Liquor Gallonage Taxes	\$158	\$161	\$159	\$1	0.63%
Insurance Tax and Fees	\$334	\$350	\$322	(\$12)	-3.59%
Corporation Franchise Tax & Fees	\$201	\$205	\$208	\$7	3.48%
Investment Income	\$81	\$35	\$26	(\$55)	-67.90%
Cook County IGT	\$253	\$243	\$244	(\$9)	-3.56%
Other	\$445	\$378	\$462	\$17	3.71%
Total: Other State Sources	\$3,278	\$3,115	\$3,108	(\$171)	-5.20%
Total: State Revenues	\$20,984	\$19,085	\$19,287	(\$1,698)	-8.09%
Transfers In:					
Lottery Fund	\$625	\$625	\$625	\$0	0.00%
State Gaming Fund	\$430	\$470	\$431	\$1	0.12%
Other Funds	\$538	\$972	\$828	\$290	53.90%
Total: State Transfers In	\$1,593	\$2,067	\$1,884	\$291	18.24%
Total: State Sources	\$22,577	\$21,152	\$21,170	(\$1,407)	-6.23%
Federal Sources					
Cash Receipts	\$6,567	\$6,056	\$5,920	(\$647)	-9.85%
Total: Federal Sources	\$6,567	\$6,056	\$5,920	(\$647)	-9.85%
Total Revenues and Transfers In	\$29,144	\$27,208	\$27,090	(\$2,054)	-7.05%
Short-Term borrowing	\$2,400	\$0	\$1,250	(\$1,150)	-47.92%
Transfer from Budget Stabilization Fund	\$576	\$0	\$1,146	\$570	98.96%
Proceeds from the Pension Obligation Note Offering	\$0	\$0	\$843	\$843	N/A
Total: Cash Receipts	\$32,120	\$27,208	\$30,329	(\$1,791)	-5.58%

¹ Source: Office of the Comptroller

² Percentage change from FY 2009 to FY 2010.

TABLE 4A
FISCAL YEAR END CASH BALANCES BY FUND CATEGORY: FY2001 TO FY 2011
(AMOUNTS IN MILLIONS)

<u>FUND CATEGORY</u>	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003 *</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>
General Funds	\$ 1,126	\$ 256	\$ 317	\$ 182	\$ 497	\$ 590	\$ 642	\$ 141	\$ 280	\$ 130	\$ -
Highway Funds	\$ 1,310	\$ 1,198	\$ 701	\$ 522	\$ 733	\$ 926	\$ 747	\$ 814	\$ 688	\$ 805	\$ -
University Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special State Funds	\$ 2,153	\$ 2,180	\$ 11,102	\$ 2,618	\$ 2,327	\$ 2,433	\$ 2,734	\$ 2,741	\$ 2,574	\$ 2,043	\$ -
Bond Financed Funds	\$ 494	\$ 269	\$ 252	\$ 199	\$ 228	\$ 533	\$ 203	\$ 77	\$ 68	\$ 2,226	\$ -
Debt Service Funds	\$ 436	\$ 487	\$ 1,050	\$ 624	\$ 648	\$ 626	\$ 638	\$ 649	\$ 654	\$ 920	\$ -
Federal Trust Funds	\$ 233	\$ 220	\$ 237	\$ 192	\$ 185	\$ 178	\$ 204	\$ 200	\$ 232	\$ 219	\$ -
Revolving Funds	\$ 43	\$ 47	\$ 48	\$ 127	\$ 91	\$ 69	\$ 63	\$ 63	\$ 29	\$ 41	\$ -
State Trust Funds	\$ 1,344	\$ 1,335	\$ 1,301	\$ 1,356	\$ 1,619	\$ 1,944	\$ 2,220	\$ 2,520	\$ 2,357	\$ 1,881	\$ -
June 30th amounts	\$ 6,906	\$ 5,773	\$ 14,770	\$ 5,628	\$ 6,142	\$ 7,122	\$ 7,247	\$ 7,005	\$ 6,650	\$ 8,047	\$ -
General Funds	\$ 294	\$ 211	\$ 163	\$ 346	\$ 251	\$ 486	\$ 429	\$ 589	\$ 215	\$ 150	\$ 186
Highway Funds	\$ 946	\$ 905	\$ 750	\$ 456	\$ 505	\$ 711	\$ 619	\$ 787	\$ 629	\$ 767	\$ 806
University Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special State Funds	\$ 2,181	\$ 1,982	\$ 1,947	\$ 3,104	\$ 2,048	\$ 2,280	\$ 2,438	\$ 2,788	\$ 2,558	\$ 2,382	\$ 2,171
Bond Financed Funds	\$ 606	\$ 295	\$ 609	\$ 323	\$ 128	\$ 63	\$ 226	\$ 91	\$ 19	\$ 672	\$ 2,126
Debt Service Funds	\$ 323	\$ 416	\$ 541	\$ 966	\$ 460	\$ 481	\$ 517	\$ 519	\$ 514	\$ 539	\$ 821
Federal Trust Funds	\$ 241	\$ 240	\$ 219	\$ 238	\$ 167	\$ 199	\$ 240	\$ 222	\$ 200	\$ 240	\$ 209
Revolving Funds	\$ 68	\$ 41	\$ 47	\$ 155	\$ 116	\$ 65	\$ 54	\$ 44	\$ 50	\$ 27	\$ 68
State Trust Funds	\$ 1,301	\$ 1,327	\$ 1,259	\$ 1,490	\$ 1,683	\$ 1,769	\$ 2,130	\$ 2,128	\$ 2,317	\$ 1,995	\$ 1,885
December 31st amounts	\$ 5,720	\$ 5,178	\$ 5,315	\$ 6,839	\$ 5,191	\$ 5,855	\$ 6,413	\$ 6,946	\$ 6,303	\$ 6,532	\$ 8,063

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

FISCAL YEAR 2009 OVERVIEW

The Fiscal Year 2009 results are presented in Tables 1 and 1A on a cash basis (receipts and disbursements) with comparative data for Fiscal Years 2005 - 2010 for the General Funds. Table 2 provides similar cash basis results for the Road Fund. Table 3 provides a comparison of appropriations for Fiscal Year 2009 and Fiscal Year 2010 Preliminary Results for the General Funds. Table 4 compares General Funds cash receipts for Fiscal Years 2008 and 2009 (budget and actual). Table 4A provides a ten-year history of all state funds, by major fund category, that are available to support the general obligation pledge.

FISCAL YEAR 2009 RESULTS

As illustrated in Table 5, State Source Revenues for the General Funds totaled \$20,984 million in Fiscal Year 2009, a \$1,960 million or 8.5% decrease from Fiscal Year 2008. The State recognizes all revenues on a cash basis, which are receipts collected during the fiscal year. The Fiscal Year 2009 decrease was primarily related to the economically sensitive income and sales taxes that collectively decreased by \$1,689 million or 8.7%, corresponding to the national recession that began in 2007. Federal Source Revenues totaled \$6,567 million, a \$1,752 million or 36.4% increase from Fiscal Year 2008, reflecting additional receipts of \$1,566 million from the American Recovery and Reinvestment Act of 2009 (“ARRA”). Statutory transfers in were \$1,593 million, which was a \$307 million or 16.1% decrease from Fiscal Year 2008 results, primarily reflecting year-to-year timing differences in such cash transfers, as well as the lack of special fund transfers to the General Funds. In the aggregate, total resources (revenues plus statutory transfers in) decreased by \$515 million or 1.7% in Fiscal Year 2009 to a total of \$29,144 million.

General Funds appropriations for Fiscal Year 2009, exclusive of pension contributions, increased by \$2,068 million or 8%, to \$27,796 million over the comparable Fiscal Year 2008 amount. Pension appropriations were \$2,486 million, a \$677 million or a 37.4% increase over Fiscal Year 2008. Medicaid appropriations were increased by approximately \$1,491 million through a supplemental appropriation, as further described below. Fiscal Year 2009 appropriations for elementary and secondary education grants increased by approximately \$340 million over Fiscal Year 2008 levels. Estimated net appropriations expended increased to \$29,775 million, which was approximately \$2,622 million or 9.7% greater than expended appropriations in Fiscal Year 2008.

Reflecting the provisions of ARRA and the ability to receive the incremental Medicaid reimbursements associated with an increased Federal Medical Assistance Program (“FMAP”) “match” to approximately 60.5% of state expenditures (versus the base amount of 50.3%), the State appropriated a supplemental Medicaid amount of \$1,491 million in Fiscal Year 2009. The additional appropriation was necessary as authorization for Medicaid payments sufficient to comply with the ARRA requirement that the State be current (i.e., 30 days or less) as of June 1, 2009 for nursing home, hospital and physician payments (to generate the additional federal matching dollars). In addition, the Governor’s Fiscal Year 2009 Revised Budget (May) reflected use of the enhanced federal FMAP match to bring all Medicaid provider accounts to current status, or receiving reimbursement within approximately 30 days. Without the additional Medicaid reimbursements, the State’s backlog of Medicaid-related bills would have increased to approximately 90 days by the end of Fiscal Year 2009.

Statutory transfers out for Fiscal Year 2009 were \$3,184 million, an \$18 million or 0.6% decrease versus Fiscal Year 2008.

In sum, for Fiscal Year 2009, total spending (expenditures plus statutory transfers out) was \$32,959 million, an increase of \$2,604 million or 8.6% versus Fiscal Year 2008.

In anticipation of a Fiscal Year 2009 budgetary deficit associated with revenue shortfalls, and based upon the State’s ability to borrow across fiscal years under such revenue shortfalls, the Governor proposed a

\$2,250 million Fiscal Year 2009 General Obligation Certificate borrowing at the time the Fiscal Year 2010 budget was introduced on March 18, 2009. The first series of \$1,000 million was issued in May 2009 and the second series of \$1,250 million was issued in August 2009. Both series were retired in Fiscal Year 2010.

Reflecting actual Fiscal Year 2009 revenues plus statutory transfers in, as well as actual Fiscal Year 2009 expenditures plus statutory transfers out, the General Funds budget basis operating deficit for Fiscal Year 2009 was \$3,815 million. The operating deficit was partially financed through the issuance of the above-mentioned \$1,000 million in General Obligation Certificates in May under the statutory provision permitting inter-year borrowings to fund unanticipated revenue shortfalls. Reflecting that borrowing, net of an intra-year cash flow financing of \$1,400 million General Obligation Certificates issued in December 2008 and fully retired with interest costs of approximately \$24 million prior to June 30, 2009, resulted in a budget basis fund balance deficit of \$3,673 million including the accumulated deficit of \$834 million carried over from Fiscal Year 2008.

As illustrated in Table 5, the Fiscal Year 2009 budget basis deficit (i.e., operating deficit less net other financial sources) of \$2,839 million was financed by an increase in accounts payable of \$2,978 million to \$3,953 million at the end of Fiscal Year 2009, including \$185 million of interfund transfers payable. General Funds cash increased by \$139 million to \$280 million at June 30, 2009, reflecting an increase in accounts payables in excess of the Fiscal Year 2009 budget basis deficit. Total General Funds operating cash, including the Budget Stabilization Fund of \$276 million, was \$556 million.

The audited *Traditional Budgetary Financial Report* for Fiscal Year 2009 was posted by the Illinois Office of the Comptroller (IOC) on March 4, 2010 at <http://www.ioc.state.il.us/Library/cr.cfm> along with budget basis financial reports of prior fiscal years. The 2009 CAFR was posted by the IOC on July 14, 2010 and can be found at http://www.apps.ioc.state.il.us/ioc-pdf/CAFR_2009.pdf. Previously, the IOC issued Financial Highlights for Fiscal Year 2009 on January 12, 2010 which includes Unaudited Preliminary Information (see: http://www.ioc.state.il.us/ioc-pdf/Summary_of_Financial_Highlights_FY_09.pdf). That unaudited information reported that the GAAP-basis fund balance deficit for the General Funds was estimated to be \$8,187 million as of June 30, 2009. The 2009 CAFR reported the GAAP basis fund balance deficit for the General Funds was actually \$7,682 million, or approximately \$500 million better than reported in January, 2010. The revised and audited Fiscal Year 2009 deficit of \$7,682 million compares to the restated Fiscal Year 2008 deficit of \$4,035 million, originally reported as \$3,934 million in the 2008 CAFR. The prior fiscal years' audited CAFRs can be found at <http://www.ioc.state.il.us/Library/cr.cfm>.

FISCAL YEAR 2009 CAPITAL BUDGET

The Fiscal Year 2009 Capital Budget contained total appropriations of \$13,937 million, an increase of \$5,058 million or 57% versus the Fiscal Year 2008 Capital Budget. The emphasis on investment in existing State facilities and assets to achieve maintenance cost efficiencies remained a priority in the Fiscal Year 2009 Capital Budget. Within limitations considered by debt affordability analysis, the total GO Bond sales for Fiscal Year 2009 were approximately \$150 million.

Total bond-financed capital appropriations in the Fiscal Year 2009 Capital Budget were \$3,752 million, not all of which have corresponding bond authorization, but which provide implementation flexibility between new and re-appropriated projects during Fiscal Year 2009.

Total capital funded out of current revenues was \$9,420 million. The Fiscal Year 2009 Capital Budget included \$1,945 million in new pay-as-you-go Road Program appropriations and \$2,556 million in Federal Recovery funds, the primary purpose of which was to maintain existing roads and bridges. Investment in transportation infrastructure was further emphasized in the passage of the "Jump Start" capital bill which provides \$3 billion in state bond funds for critical improvements for roads, bridges and transit.

FISCAL YEAR 2010 BUDGET AND PRELIMINARY RESULTS

The Governor introduced the Fiscal Year 2010 proposed operating budget on March 18, 2009. The General Assembly passed a series of appropriation bills by May 31, 2009, the statutory deadline for adoption of a budget with a simple majority. Subsequently, the Governor vetoed several of those appropriation bills. The General Assembly on July 15, 2009 passed by a super-majority (statutorily required of at least 60%) a new bill that was signed by the Governor on that same date.

Subsequent to the approved Fiscal Year 2010 budget, revenue forecasts were adjusted in December 2009 and again in March 2010, reflecting the continuing national recession and the impact on State revenues, especially the economically sensitive income and sales taxes. Those revenue revisions are reflected in Table 5 in the Fiscal Year 2010 Revised Budget (March 2010) column as are supplemental appropriations adopted during the fiscal year.

Table 5 also incorporates Fiscal Year 2010 Preliminary Results utilizing data provided from the records of the Illinois Office of the Comptroller. The following discussion is based upon those unaudited 2010 results and comparisons to results drawn from the audited Fiscal Year 2009 Traditional Budgetary Financial Report (<http://www.apps.ioc.state.il.us/ioc-pdf/TBR09.pdf>).

As illustrated in Table 5, State Source Revenues for the General Funds totaled \$19,934 million in Fiscal Year 2010, a \$1,650 million or 7.9% decrease from Fiscal Year 2009. The State recognizes all revenues on a cash basis, which are receipts collected during the fiscal year. The Fiscal Year 2010 decrease was primarily related to the economically sensitive income and sales taxes that collectively decreased by \$1,527 million or 7.1%, corresponding to the continuing effects of the national recession that began in 2007. The Fiscal Year 2010 Adopted Budget maintained the same Refund Fund Rates for income taxes (as discussed in the "TAX STRUCTURE" section that follows below) as utilized in the Fiscal Year 2009 budget, resulting in an estimated balance in the Refund Fund backlog for income tax refunds of approximately \$925 million by the end of Fiscal Year 2010. Federal Source Revenues totaled \$5,920 million, a \$647 million or 9.9% decrease from Fiscal Year 2009, including receipts of \$1,727 million from the American Recovery and Reinvestment Act of 2009 ("ARRA"). The net Fiscal Year 2010 Federal decrease is attributable to incremental and one-time Federal receipts in 2009, that were reimbursements associated with a \$1,491 supplemental Medicaid appropriation necessary for compliance with ARRA terms. Statutory transfers in were \$1,836 million, which was a \$242 million or 15.2% increase from Fiscal Year 2009 results, primarily reflecting one-time special fund transfers to the General Funds. In the aggregate, total resources (revenues plus statutory transfers in) decreased by \$2,055 million or 7.1% in Fiscal Year 2010 to a total of \$27,090 million.

Final Fiscal Year 2010 appropriations (excluding pension contributions) totaled \$26,357 million, which is \$1,440 million or 5.2% below final Fiscal Year 2009 appropriations. Unspent Fiscal Year 2010 Appropriations were \$1,099 million, which is \$592 million or almost 117% more than the Fiscal Year 2009 amount of \$507 million, reflecting approximately \$600 million of Medicaid appropriations transferred to and paid from the Healthcare Provider Relief Fund during 2010. Fiscal Year 2010 Transfers Out were \$3,539 million which was \$355 million or 11.1% above Fiscal Year 2009 transfers. As further described in footnote 4 of Table 5, the Fiscal Year 2010 Transfers Out include \$991 million of statutory cash transfers that were not executed as of June 30, 2010, but will be effectuated in Fiscal Year 2011. Taken together, net appropriation spending and Transfers Out for Fiscal Year 2010 were \$28,797 million, which is \$4,162 million or 12.6% below the Fiscal Year 2009 amount, reflecting reduced amounts in the Adopted Fiscal Year 2010 Budget particularly \$3,466 million of pension contributions appropriated and being financed outside of the General Funds as further described in footnote 1 of Table 5.

As detailed in Table 5 and reflecting the above changes in forecasted amounts, the Fiscal Year 2010 Preliminary Results (unaudited) projects a budget basis operating deficit of \$1,707 million. Taking into account the net repayment of general obligation certificates used for short-term borrowing purposes and issued in May and August of 2009 that were repaid in Fiscal Year 2010, the unaudited budget basis deficit

was \$2,458 million resulting in an unaudited General Funds budget basis fund balance deficit of \$6,131 million as of June 30, 2010.

The Fiscal Year 2010 deficit was financed by an increase in budget basis accounts payable as well as a the short term borrowing under the provisions of Section 1.1 of the Short Term Borrowing Act, 30 ILCS 340, notice of which was made on June 1, 2010 for an amount not to exceed \$1,300 million. Since that borrowing was not effectuated until after the close of the fiscal year on June 30, 2010, Table 5 reflects an estimated budget basis accounts payable amount of \$6,410 million excluding that borrowing. Proceeds of the \$1,300,000,000 General Obligation Certificates of July 2010 were used to pay various liabilities reflected in that accounts payable amount. The Short Term Borrowing Act requires repayment within one year of the issuance and are scheduled for April, May and June of 2011.

Budget basis accounts payable equals approved vendor invoices (“vouchers”) on hand at June 30th plus invoices received, approved and charged to Fiscal Year 2010 appropriations during the Fiscal Year 2010 Lapse Period. Pursuant to the Emergency Budget Act (SB3660), that was passed by the General Assembly on May 27, 2010 signed into law by the Governor, the lapse period has been extended to December 31, 2010, versus the statutory date of 60 days after the end of the fiscal year.

As of June 30, 2010, and per certification by the Illinois Office of the Comptroller, vouchers on hand at that date totaled \$4,712 million including \$1,267 million of Fiscal Year 2010 statutory transfers that were not executed (i.e., cash transfers were not made) as of that date. Those transfers will be effectuated in Fiscal Year 2011. Subsequently, \$1,698 million of additional vouchers were presented to the Comptroller, pursuant to SB3660, resulting in the total budget basis accounts payable of \$6,410 million as incorporated in Table 5.

General Funds cash at June 30, 2010 for Fiscal Year 2010 was \$130 million, Reflecting liquidity needs, the Budget Stabilization Fund, which is used for working cash purposes during each fiscal year, was not replenished by the budgeted cash transfer from the General Funds as of the close of Fiscal Year 2010.

Budget estimates, projections and forecasts are based solely on information available as of the date of this Offering and may differ from actual Fiscal Year 2010 year-end results.

FISCAL YEAR 2010 CAPITAL BUDGET

Illinois Jobs Now!, the State’s first capital bill in over 10 years, is a \$31 billion multi-year program that emphasizes job creation and retention, economic stimulus and accessing federal ARRA dollars while making crucial investments in the State’s schools, roads, bridges, airports and transit system. The major Fiscal Year 2010 components of Illinois Jobs Now! are: \$15,399 million of road and bridge projects; \$3,621 million for school construction; and \$5,660 million for state-wide mass transit. The Illinois Jobs Now! program provides access to over \$3.7 billion in ARRA funds, including funding for roads and bridges, airports, transit, rail and waste water and drinking water infrastructure.

Funding for Illinois Jobs Now! is comprised of monies from Federal, State and Local sources, with the State’s share of approximately \$14.6 billion to be funded through the issuance of General Obligation and Build Illinois Bonds over the length of the program. The debt service on the State’s portion will be supported by the following: (1) an increase in the motor vehicle title fees generating an anticipated amount of \$122 million annually; (2) an increase in license plate fees generating an anticipated amount of \$180 million annually; (3) revenues from new sales tax on candy, sweet tea, coffee, grooming and hygiene products; (4) an increase in wine and spirits taxes generating an anticipated amount of \$162 million annually; (5) establishing a new licensing and taxation program for video gaming terminals generating an anticipated amount of \$300 million annually; and (6) using existing monies deposited into the Road Fund to provide \$150 million per year for the payment of debt service. All annual amounts reflect revenues generated once fully implemented. See “LITIGATION – Tax Protest Litigation” for a description of a lawsuit that has been filed which challenges certain of the taxes described above.

The remainder of the Fiscal Year 2010 Capital Budget contains prior year re-appropriations consisting of both bond funded and current revenue sources totaling \$9,695 million. The total bond-financed re-appropriations included in the Fiscal Year 2010 Capital Budget are \$2,127 million, which includes General Obligation bonded in the amount of \$1,491 million and Build Illinois bonded in the amount of \$636 million. Total capital re-appropriations funded out of current revenues is \$6,924 million, and total prior federally funded is \$644 million.

FISCAL YEAR 2011 BUDGET

In order to fully understand the Fiscal Year 2011 Budget, information under the following three subsections, entitled “STATE FINANCIAL INFORMATION – FISCAL YEAR 2011 BUDGET – Enacted Budget,” “ – SELECT RECENT LEGISLATIVE DEVELOPMENTS” and “ – REVISED FISCAL YEAR 2011 BUDGET,” should be read as a whole.

ENACTED BUDGET

The Fiscal Year 2011 Budget was adopted on July 1, 2010 pursuant to the signing of the following bills by Governor Pat Quinn:

- House Bill 859: Appropriations-*Reduction Vetoed* as executed by the Governor.
- Senate Bill 1215: Technical Appropriations Changes.
- Senate Bill 3660: Emergency Budget Act
- Senate Bill 3662: Budget Implementation Act

The Fiscal Year 2011 Enacted Budget is shown in Table 5 and is described below.

For Fiscal Year 2011 Total Revenues are estimated to be \$25,728 million, including \$19,703 million and \$6,025 million from State and Federal sources, respectively. Including State Transfers In of \$1,626 million, the estimated operating receipts from all sources to the State are \$27,354 million, which is \$474 million or 1.9% above the Fiscal Year 2010 collections and \$1,790 million below Fiscal Year 2009. All Fiscal Year 2010 amounts are unaudited and subject to adjustment. All Fiscal Year 2009 amounts are audited and contained in the State’s 2009 Traditional Budgetary Financial Report.

Since 2009, Illinois has experienced the same economic downturn as the country as a whole. The increase reflected in the 2011 budget over 2010 reflects small increases in tax revenue, predominately Personal Income Taxes, based on the recovering economy. In addition, the termination and/or reduction of several key Federal stimulus programs will also negatively impact Fiscal Year 2011 revenues.

Appropriations, excluding statutory pension contributions and net of planned “Unspent Appropriations” for Fiscal Year 2011, total \$24,923 million, which is \$334 million or 1.3% below estimated Fiscal Year 2010 expended appropriations and are \$2,365 million or 8.7% below Fiscal Year 2009. Excluding pension contributions, Fiscal Year 2011 net appropriations plus transfers out total \$29,329 million, which is \$532 million or 1.7% higher than the comparable amount for the Fiscal Year 2010 Budget but \$1,144 million *below* Fiscal Year 2009 levels. (Pension contributions are excluded for comparability purposes since the Fiscal Year 2010 contribution was not appropriated in the General Funds though appropriated and funded pursuant to statute, as further described in footnote 1 of Table 5.) The spending change, again excluding pensions due to the Fiscal Year 2010 contribution being appropriated and paid through other State special funds, between Fiscal Year 2011 and Fiscal Year 2010 is largely due to an increase in Statutory transfers out for repayment of the April 2010 Medicaid Borrowing and the 2010 Pension Bonds (as hereinafter defined). The decrease from Fiscal Year 2009 reflects the continuing effort to reduce State operating expenditures to bring them in line with actual and projected revenues.

Including pensions, net appropriation spending and Transfers Out for Fiscal Year 2011 are now estimated at \$33,486 million, which is \$4,689 million or 16.3% above the estimated Fiscal Year 2010 unaudited

results and \$527 million above Fiscal year 2009. This is largely due to \$4,157 million in pension contributions appropriated in Fiscal Year 2011 versus the Fiscal Year 2010 contributions which were not appropriated in the General Funds (see Table 5, footnote 1) and an increase in pension contributions between Fiscal Year 2011 and Fiscal Year 2009 of \$1,671 million.

The State anticipates that Pension Contributions will continue to rise in compliance with Public Act 88-593 (the "Pension Funding Act") which requires that the five State pension funds each reach 90% funded levels by Fiscal Year 2045. Future contributions will be impacted by reforms approved by the General Assembly and signed into law by the Governor in March, 2010. See "PENSION SYSTEMS" for further details.

As detailed in Table 5, the Fiscal Year 2011 Enacted Budget projects a budget basis deficit of \$6,132 million. That deficit is addressed through the securitization of revenues received by the State under the Tobacco Master Settlement Agreement, which is anticipated to generate \$1,200 million, and Inter-Fund borrowings of approximately \$1,250 million, both as authorized by SB3660. In addition, the Governor proposed General Obligation Pension Bonds of approximately \$3,700 million in the Introduced Budget. SB3514, Pension Fund Borrowing, which was approved by the General Assembly and signed into law by the Governor on January 14, 2011.

The Governor has executed and/or will be executing adjustments in appropriations including line item reductions veto totaling \$155 million and imposing budget reserves (i.e., unspent appropriations) of approximately \$891 million. In addition, the Governor, utilizing powers granted to him by SB3660, will be seeking additional reserves, as needed, on a program-by-program, agency-by-agency basis in order to ensure a balanced budget.

Reflecting the above measures, the General Funds budget basis fund balance deficit is projected at \$6,131 million as of June 30, 2011, the same as at the end of Fiscal Year 2010. Similarly, the budget basis accounts payable is projected to remain at \$6,410 million as of June 30, 2011, the same estimated amount as of the end of Fiscal Year 2010. To support payment of Fiscal Year 2010 outstanding vouchers, short term General Obligation Certificates of \$1,300 million were issued in July 2010 under the Short Term Borrowing Act (30 ILCS 340), Section 1.1. The General Funds June 30, 2011 cash balance is also projected to remain at \$280 million, the same estimated amount at the end of Fiscal Year 2010.

Budget estimates, projections and forecasts are based solely on information available as of the date of this Offering and may differ from actual Fiscal Year 2011 year-end results.

SELECT RECENT LEGISLATIVE DEVELOPMENTS

EMERGENCY BUDGET ACT OF 2011

The General Assembly passed SB3660 on May 27, 2010 which provides significant and additional budget management authority to the Governor including the following key provisions:

- Authorizes the Governor to require reserves in all State agencies for up to 30% of outstanding vouchers as of June 30, 2010. The Comptroller has certified the total amount of outstanding vouchers as of that date was \$4,712 million, including \$1,267 million of Fiscal Year 2010 statutory transfers that were not executed as of that date. As such, total reserves authorized by the Emergency Borrowing Act total approximately \$1,413 million.
- Reserves cannot be spent unless released by the Governor or upon passage of new revenue sources in amount greater than released reserves.
- Allows the Governor to unilaterally borrow from other state funds under the following conditions:

- Individual fund cannot be reduced below its next 12 month appropriations/expenditures.
- All funds, taken together, cannot be reduced below the next 12 months total debt service for all outstanding long and short term debt.
- Funds will be compensated at rate set by the Treasurer.
- Funds can be borrowed for no longer than 18 months.
- Irrevocable and continuing appropriation to repay funds from General Revenue Fund.
- Extends the lapse spending period to December 31, 2010, which permits payment of Fiscal Year 2010 liabilities incurred by June 30, 2010 against any remaining appropriation authority of that year.
- Requires the review and rebid of all major contracts.
- Requires General Assembly members to take furlough days, reduce per diem amounts and eliminates cost of living salary increases.

PUBLIC ACT 96-1496 (SENATE BILL 2505)

- Increased income tax rates on individuals from 3.0% to 5.0% effective January 1, 2011. Tax rate will reduce on January 1, 2015 to 3.75% and on January 1, 2025 to 3.25%.
- Increased income tax rates on corporations from 4.8% to 7.0% effective January 1, 2011. Tax rate will reduce on January 1, 2015 to 5.25% and on January 1, 2025 to 4.8%.
- Suspended applicability of corporate net operating carry forward until tax year 2015.
- Re-established tax on inheritance.
- Established spending limitations against the sum of the General Revenue Funds and certain other funds to no more than \$36.818 billion in Fiscal Year 2012, \$37.554 billion in Fiscal Year 2013, \$38.305 billion in Fiscal Year 2014, and \$39.072 billion in Fiscal Year 2015. An uncured violation of these spending limitations may result in the reduction of tax rates to 3.00% for individuals and 4.8% for corporations.
- Provides that through fiscal year 2015, if the Governor determines that there are insufficient funds appropriated to satisfy statutory mandates that are not designated in law as being subject to appropriation, the Governor may reduce the amount of funds appropriated for some or all of those statutory mandates in amounts he or she deems necessary to accommodate budgetary limitations while attempting to implement such mandates to the extent reasonably practical.

PUBLIC ACT 96-1497 (SB3514) PENSION FUNDING

- Authorizes the issuance of \$4.096 billion of pension obligation bonds. Funds will be used to fund the State's contribution to the State Pension Systems in Fiscal Year 2011.

PUBLIC ACT 96-0958 (SB3660) BUDGETING FOR OUTCOMES

- Establishes procedures for budgeting for outcomes. Starting with Fiscal Year 2012, budgets must be based on both anticipated revenues and prioritization of State programs and outcomes.

PUBLIC ACT 96-1354 (HB6268) THREE YEAR BUDGETING

- Requires the Governor's Office of Management and Budget to submit an economic and fiscal policy report to the General Assembly each year that outlines the long term economic and

fiscal objectives of the State, the economic and fiscal policy intentions for the upcoming year and for the following two years (the next three fiscal years in total). Such “three year budget forecast” must be available to the public on the Office of Management and Budget’s website.

REVISED FISCAL YEAR 2011 BUDGET

On January 11, 2011 the General Assembly passed SB2505 which increased income tax rates and temporarily suspended various corporate income tax loss carry forward provisions. The individual income tax rate was increased to 5.0% and the corporate rate to 7.0%, both effective January 1, 2011. The Governor signed the bill on January 14, 2011.

Subsequent to the adoption of SB2505 and the inauguration of the 97th General Assembly, two additional bills were introduced that are reflected in the FY2011 Revised Budget including an increase in the Tobacco Tax of \$1.01 per pack of cigarettes proposed in SB44 and the authorization of \$8,750 million in General Obligation Restructuring Bonds in SB336. The proceeds of these bonds, upon resubmission of the respective legislation to the General Assembly, their approval of such legislation and the subsequent issuance of the bonds, will be used to reduce the fiscal year-end balance of accounts payable, fund State employee health insurance, educational programs and a reduction in the balance of outstanding income tax refunds. There is no assurance that such legislation will be approved by the General Assembly. The amount of Restructuring Bonds assumed in Table 5 consists of \$5,750 million total with \$4,380 million used to pay down accounts payable.

The Fiscal Year 2011 Revised Budget is shown in Table 5 and is described below. Table 5 assumes passage of the legislation discussed above. Budget estimates, projections and forecasts are based solely on information available as of the date of this Official Statement and may differ from actual Fiscal Year 2011 year-end results.

For Fiscal Year 2011 Total Revenues are estimated to be \$28,631 million, including \$22,655 million and \$5,976 million from State and Federal sources, respectively. Including State transfers in of \$1,626 million, the estimated operating receipts from all sources to the State are \$30,253 million, which is \$3,377 million or 13.4% above the Fiscal Year 2010 collections and \$1,109 million above Fiscal Year 2009. All Fiscal Year 2010 amounts are unaudited and subject to adjustment. All Fiscal Year 2009 amounts are audited and contained in the State’s 2009 Traditional Budgetary Financial Report.

Since 2009, Illinois has experienced the same economic downturn as the country as a whole. The increase reflected in the 2011 budget over 2010 reflects small increases in tax revenue, predominately Personal Income Taxes, based on the recovering economy as well as approximately \$2,882 million of additional estimated income taxes associated with SB2505.

Appropriations, excluding statutory pension contributions and net of planned “Unspent Appropriations” for Fiscal Year 2011, total \$25,723 million, which is \$446 million or 1.8% above estimated Fiscal Year 2010 expended appropriations and \$1,565 million or 5.7% below Fiscal Year 2009. Excluding pension contributions, Fiscal Year 2011 net appropriations plus transfers out total \$30,150 million, which is \$1,353 million or 4.7% higher than the comparable amount for the Fiscal Year 2010 Budget but \$323 million below Fiscal Year 2009 levels. (Pension contributions are excluded for comparability purposes since the Fiscal Year 2010 contribution was not appropriated in the General Funds though appropriated and funded pursuant to statute, as further described in footnote 1 of Table 5.) The spending change, again excluding pensions due to the Fiscal Year 2010 contribution being appropriated and paid through other State special funds, between Fiscal Year 2011 and Fiscal Year 2010 is largely due to an increase in statutory transfers out for repayment of the April 2010 Medicaid Borrowing and the 2010 Pension Bonds. The decrease from Fiscal Year 2009 reflects the continuing effort to reduce State operating expenditures to bring them in line with actual and projected revenues.

Including pensions, net appropriation spending and transfers out for Fiscal Year 2011 are now estimated at \$34,306 million, which is \$5,509 million or 19.1% above the estimated Fiscal Year 2010 unaudited

results and \$1,347 million above Fiscal Year 2009. This is largely due to \$4,157 million in pension contributions appropriated in Fiscal Year 2011 versus the Fiscal Year 2010 contributions which were not appropriated in the General Funds (see Table 5, footnote 1) and an increase in pension contributions between Fiscal Year 2011 and Fiscal Year 2009 of \$1,671 million.

The State anticipates that pension contributions will continue to rise in compliance with the Pension Funding Act which requires that the five State pension funds each reach 90% funded levels by Fiscal Year 2045. Future contributions will be impacted by reforms approved by the General Assembly and signed into law by the Governor in March, 2010. See “PENSION SYSTEMS” for further details.

As additional support for payment of Fiscal Year 2010 outstanding vouchers, short term General Obligation Certificates of \$1,300 million were issued in July 2010 under the Short Term Borrowing Act (30 ILCS 340), Section 1.1.

Reflecting the above measures, the General Funds budget basis fund balance deficit is projected at \$21 million as of June 30, 2011, a reduction of \$6,100 million. Similarly, the budget basis accounts payable is projected to be reduced to \$1,800 million as of June 30, 2011, a reduction of \$4,610 million. The General Funds June 30, 2011 cash balance is also projected to increase to \$1,780 million.

FISCAL YEAR 2011 CAPITAL BUDGET

The Governor introduced the Fiscal Year 2011 proposed capital budget on March 10, 2010, which can be found at: <http://www2.illinois.gov/budget>. The second installment of bond authorization for the Illinois Jobs Now! Program was passed by the General Assembly on January 11, 2011 as SB3087.

The Fiscal Year 2011 Capital Budget is a continuation and extension of the Illinois Jobs Now!, the State’s first capital bill in over 10 years. That bill authorized a \$31 billion multi-year program that emphasizes job creation and retention, economic stimulus and accessing federal ARRA dollars while making crucial investments in the State’s schools, roads, bridges, airports and transit system.

For Fiscal Year 2011, the Governor proposed an expansion of Illinois Jobs Now! to, among other things, allocate \$250 million in state funds to create the School Consolidation Construction Program to encourage smaller school districts to consolidate and save administration costs. The Governor’s proposal makes an additional \$396 million available for capital improvements and repairs to the state’s public universities (\$268 million) and to the state’s community colleges (\$128 million). The expansion would also provide \$55.1 million to communities around Illinois for a wide range of economic and workforce development programs including green business development, and new industries and technologies. An additional \$534.4 million is proposed for repairs and upgrades to Illinois state owned facilities, and to promote energy efficient and environmentally friendly facilities. Similarly, an additional \$224.7 million would fund environment, energy and technology programs in Illinois. These programs are intended to protect and improve Illinois’ environment and natural assets as well as to enhance the technology infrastructure in Illinois.

Beyond the proposed expansion, new appropriations of \$2,337.7 million are proposed for highway, road, bridge, rail and airport construction, as well as \$502.9 million for environmental, energy and technology projects, as proposed in the original program.

The remainder of the Fiscal Year 2011 Capital Budget contains prior year re-appropriations consisting of both bond funded and current revenue sources totaling \$24,684 million.

The total bond-financed re-appropriations included in the Fiscal Year 2011 Capital Budget are \$16,544 million, which includes General Obligation bonded in the amount of \$14,032.1 million and Build Illinois bonded in the amount of \$2,511.9 million. Total capital re-appropriations funded out of current revenues is \$8,139.9 million.

As of the date of this Official Statement, the Fiscal Year 2011 Capital Budget has been approved by the General Assembly and sent to the Governor for his signature.

THREE YEAR BUDGET FORECAST

The Governor's Office of Management and Budget is required to submit an economic and fiscal policy report to the General Assembly each year that outlines the long term economic and fiscal objectives of the State, the economic and fiscal policy intentions for the upcoming year and for the following two years (the next three fiscal years in total). The current "three year budget forecast" is available to the public on the Office of Management and Budget's website, <http://www.budget.illinois.gov>. This report reflects budget estimates, projections and forecasts which are based solely on information available as of the date of this Official Statement and may differ from actual results.

REVISIONS TO FISCAL YEAR 2010 AND FISCAL YEAR 2011

In conjunction with the preparation and submission by the Governor of a proposed operating budget for Fiscal Year 2012 (the "Fiscal Year 2012 Proposed Budget") on February 16, 2011, revisions have been made to the budget plans for Fiscal Year 2010 and Fiscal Year 2011 as presented in Table 5. Those revisions, as well as the Fiscal Year 2012 Proposed Budget, are reflected in Table 5A and discussed below. In order to fully understand these revisions, Table 5 and Table 5A should be read as a whole.

FISCAL YEAR 2010 REVISIONS

Table 5A reflects adjustments based upon additional information available from the records of the Comptroller, as well as additional analysis by the State. Certain adjustments from the amounts shown in Table 5 to the amounts shown in Table 5A include the following:

- Short Term Borrowing proceeds have been reduced by approximately \$276 million to \$1,250 million due to improper recording of a transfer from the Budget Stabilization Fund and effectively double counting \$276 million in Table 5.
- The resulting Cash Basis Deficit has been restated to approximately \$150 million from the previously reported zero amount.
- Cash at year end has been reduced by approximately \$150 million, reflecting the Cash Basis Deficit, and resulting in a revised ending Fiscal Year 2010 balance of \$130 million in Table 5A, consistent with the description of the General Funds cash balance at June 30, 2010, in the subsection entitled "Fiscal Year 2010 Budget and Preliminary Results."

As of the date of this Offering, the audited Fiscal Year 2010 Comprehensive Annual Financial Report has not been issued by the Comptroller.

Budget estimates, projections and forecasts are based solely on information available as of the date of this Offering and may differ from actual Fiscal Year 2010 year-end results.

FISCAL YEAR 2011 REVISIONS

Table 5A reflects adjustments that were made in conjunction with the historical practice of submitting a revised forecast for the current fiscal year when the Proposed Budget for the subsequent fiscal year is introduced by the Governor. Certain adjustments from Table 5 that are reflected in Table 5A include the following:

- Federal Revenues were reduced by approximately \$470 million to \$5,506 million based upon reduced Medicaid spending in the General Funds and a budgetary decision to utilize spending authority in other Medicaid-related funds, including the Health Care Provider Fund, where the Federal reimbursements will be deposited in approximately the same amount as this reduction.
- Appropriations were reduced by \$543 million, which includes \$383 million of Supplemental Appropriations for the Departments of Corrections, Employment Security, Human Services and Aging.

- Unspent Appropriations were increased by \$867 million, primarily reflecting reduced Medicaid spending in the General Funds, as described above.
- Other Transfers were increased by \$505 million, reflecting repayment of Inter Fund Borrowings originally assumed to occur in Fiscal Year 2012, as well as the repayment to the Budget Stabilization Fund of approximately \$276 million as described above in the Fiscal Year 2010 revisions.
- Other Financing Sources have been decreased by \$750 million, reflecting revised assumptions on the estimates of proceeds from the Bonds and the proposed General Obligation Restructuring Bonds.
- Accounts Payable at year end has been further reduced by approximately \$1,200 million, to \$600 million at year end.

Budget estimates, projections and forecasts are based solely on information available as of the date of this Offering and may differ from actual Fiscal Year 2011 year-end results.

FISCAL YEAR 2012 BUDGET

The Governor introduced the Fiscal Year 2012 Proposed Budget on February 16, 2011, which can be found at www.budget.illinois.gov and is incorporated into Table 5A. **The Proposed Budget submitted by the Governor requires approval of the State legislature, and there is no assurance that the budget ultimately adopted by the State legislature and signed by the Governor will be similar to the Fiscal Year 2012 Proposed Budget. Additionally, the Fiscal Year 2012 Proposed Budget contains certain forecasts and assumptions that are based on current plans and expectations which are subject to changes in circumstances and other uncertainties.**

The following summary describes certain forecasts and assumptions set forth in the Fiscal Year 2012 Proposed Budget:

Total revenues from all sources and Transfers In are forecast at \$33,932 million, a 10.8% increase from the Fiscal Year 2011 Revised Budget. Total State Source revenues are forecast to increase by \$4,479 million or 19.6% above the revised Fiscal Year 2011 amount, primarily reflecting collections of a full year of increased income taxes, as well as modest growth in the base income and sales taxes associated with the economic recovery. All other State Source revenues, excluding Transfers In, are forecast to increase by \$35 million or 1.2% over the revised Fiscal Year 2011 forecast.

Diversion rates to the Income Tax Refund Fund are set at 8.75% of individual income tax collections and 12.5% of corporate income tax collections, which are sufficient to pay all refunds claimed during the year, resulting in no unpaid backlog by June 30, 2012. That projection is based upon an additional deposit of approximately \$460 million from the proposed General Obligation Restructuring Bonds directly to the Income Tax Refund Fund during the fiscal year.

State Transfers In are forecast to decrease by \$7 million or 0.4% and no Inter Fund Borrowings are assumed in the Fiscal Year 2012 Proposed Budget, as compared to \$505 million of Inter Fund Borrowings that was borrowed in Fiscal Year 2011 and scheduled to be repaid within Fiscal Year 2012. However, gaming related taxes, including \$73 million from receipt of the licensing fee for a tenth riverboat, are forecast to increase by \$163 million, primarily from the opening of the tenth riverboat and net of any decreased revenues drawn from existing boats. Other statutory transfers are projected to decrease by approximately \$169 million associated with reduced transfers of excess balances from the Capital Projects Fund of \$135 million and \$37 million from the Protest Fund, with all other transfers substantially flat in the aggregate.

Federal revenues are forecast to decline by \$662 million reflecting the end of Federal stimulus dollars paid to the State under ARRA, a reduction in Medicaid reimbursement rates with a resulting decrease in

Federal matching dollars paid to the State, the acceleration of Medicaid payments from Fiscal Year 2012 to Fiscal Year 2011 to take advantage of the enhanced Federal matching dollars available until June 30, 2011, and the transfer of revenues from a Federally funded childcare program to a separate State fund.

Total Operating Expenditure and Transfers Out are forecast to increase by \$1,716 million, a 5.1% increase over the revised Fiscal Year 2011 amount. The major shifts in expenditures are as follows:

- An increase of \$1,618 million in Net Appropriations comprised of an increase in Gross Appropriations of \$662 million (2.5%) and a decrease in projected Unspent Appropriations of \$956 million (54.4%).
- An increase in Pension Contributions of \$675 million (17.2%).
- An increase in Transfers Out of \$256 million (12.4%).
- An increase in on-going debt service (inclusive of Pension, Capital and General Obligation Restructuring Bonds) of \$138 million (5.7%).
- A decrease in cash used for debt service on the Medicaid Bonds of 2010, repayment of Inter Fund Borrowing of \$505 million and the Budget Stabilization Fund of \$276 million.

As illustrated in Table 5A, the Budget Basis Operating Deficit is forecast as \$1,450 million.

The budget basis Accounts Payable as of June 30, 2012 are projected in the Fiscal Year 2012 Proposed Budget to remain unchanged at \$600 million, as would ending cash balance in the General Fund and Budget Stabilization Fund of \$146 million and \$276 million, respectively, for a total of \$422 million at that date, the same as projected in the Fiscal Year 2011 Revised Budget contained in Table 5A.

Budget estimates, projections and forecasts are based solely on information available as of the date of this Offering, are subject to subsequent revision without notice, and may differ from actual Fiscal Year 2012 year-end results.

COMPARISON TO MULTI YEAR FORECAST

The Three Year Budget Forecast (the "Plan") released in January 2011 and posted on www.budget.illinois.gov and the Fiscal Year 2012 Proposed Budget as submitted by the Governor reflect changes in projected revenues and expenses. The reader should note that the formatting of the Plan and the Fiscal Year 2012 Proposed Budget are different with the Plan including all revenues and borrowings as sources of funds *above* Total Operating and Additional Expenditures while the Proposed Fiscal Year 2012 Budget reflects all borrowings as sources of funds *after* Total Operating Expenditures and Transfers Out. Additionally, the Plan reflects the impact of the tax increases as a separate line item to highlight their impact on State revenues, while the Fiscal Year 2012 Proposed Budget reflects revenues as a number inclusive of both base and incremental revenues. Finally, the Plan reflects Appropriations net of Unspent Appropriations, while the Fiscal Year 2012 Proposed Budget displays this number as a separate line item.

Other notable changes between the Plan and the Fiscal Year 2012 Proposed Budget include:

- Appropriations for "Protecting the Most Vulnerable Among Us" decreased by approximately \$1.4 billion resulting from the shift of State Group Health Insurance expenditures from this expenditure category to "Improving the Efficiency and Fiscal Stability of State Government".
- Reductions in Federal revenues of \$1.1 billion results from reductions in Medicaid reimbursement rates (\$281 million), the shift of expenditures and the associated revenues to other funds of the State (\$495 million), the shift of revenues from Fiscal Year 2012 back to Fiscal Year 2011 through the acceleration of Medicaid payments to take advantage of the enhanced match of 57 cents (versus 50 cents as of June 30, 2011) for each dollar spent by the State.

- \$450 million to fund part of the State's contribution to the State University Retirement System was moved from the Education category to Pension Fund Contributions.
- The Three Year Budget Forecast released in January 2011 showed a Surplus for Fiscal Year 2012 of \$100 million. As a result of the updates to the Fiscal Year 2012 this surplus declines to \$0.

REVISIONS TO FISCAL YEAR 2011 CAPITAL BUDGET

The Governor introduced the Fiscal Year 2011 Proposed Capital Budget on March 10, 2010, which can be found at: [HTTP://WWW2.ILLINOIS.GOV/BUDGET](http://www2.illinois.gov/budget). Revisions to this capital budget are as follows:

New appropriations of \$2,196.2 million have been approved for highway, road, bridge, rail and airport construction, as well as \$494.9 million for environmental, energy and technology projects, as proposed in the original program. Collectively, total new appropriations for Fiscal Year 2011 are \$2,895 million.

The remainder of the Fiscal Year 2011 Capital Budget contains prior year re-appropriations consisting of both bond funded and current revenue sources totaling \$25,313 million. The total bond-financed re-appropriations included in the Fiscal Year 2011 Capital Budget are \$17,173 million, which includes General Obligation bonded in the amount of \$14,427.5 million and Build Illinois bonded in the amount of \$2,745.1 million. Total capital re-appropriations funded out of current revenues is \$8,140.9 million, and total prior federally funded is \$856.1 million.

FISCAL YEAR 2012 CAPITAL BUDGET

The Governor introduced the Fiscal Year 2012 Proposed capital budget on February 16, 2011, which can be found at: www.budget.illinois.gov. The proposed budget submitted by the Governor requires approval of the State legislature, and there is no assurance that the budget finally adopted will be similar to the budget submitted by the Governor.

For Fiscal Year 2012, the Governor proposed an expansion of Illinois Jobs Now! to, among other things, allocate an additional \$425 million available for capital improvements and repairs to the State's public universities (\$265 million) and to the State's community colleges (\$160 million). The expansion would also provide \$36.4 million to communities around Illinois for a wide range of economic and workforce development programs including green business development, and new industries and technologies. An additional \$518.6 million is proposed for repairs and upgrades to State owned facilities, and to promote energy efficient and environmentally friendly facilities. Similarly, an additional \$167.7 million would fund environment, energy and technology programs in Illinois. These programs are intended to protect and improve Illinois' environment and natural assets as well as to enhance the technology infrastructure in Illinois.

Beyond the proposed expansion, new appropriations of \$2,193.5 million are proposed for highway, road, bridge, rail and airport construction, as well as \$446.1 million for environmental, energy and technology projects, as proposed in the original program. Collectively, total new appropriations for Fiscal Year 2012 are \$4,042 million.

The remainder of the Proposed Fiscal Year 2012 Capital Budget contains prior year re-appropriations consisting of both bond funded and current revenue sources totaling \$23,100 million. The total bond-financed re-appropriations included in the Fiscal Year 2012 Capital Budget are \$14,561 million, which includes General Obligation bonded in the amount of \$12,006 million and Build Illinois bonded in the amount of \$2,554.7 million. Total capital re-appropriations funded out of current revenues is \$8,539.3 million, and total prior federally funded is \$1,131.4 million.

BUDGET STABILIZATION FUND

Legislation enacted in 2000 required the State to transfer any unencumbered balance in the Tobacco Settlement Recovery Fund as of June 30, 2001 to the newly-created Budget Stabilization Fund. The State transferred \$225 million to the Budget Stabilization Fund in July 2001. Public Act 92-11 authorized the Comptroller to direct the transfer of money from the Budget Stabilization Fund to the General Revenue Fund to meet short-term cash flow needs, with the requirement that all money so transferred must be repaid within the same fiscal year. The Fiscal Year 2004 budget included an additional \$50 million contribution to the Budget Stabilization Fund, bringing the end of year balance to \$276 million, where it remained at June 30, 2009. Reflecting additional liquidity needs, the Comptroller did not repay the Fiscal Year 2010 cash flow borrowing to the General Revenue Fund as of June 30, 2010. The Fiscal Year 2011 Operating Budget assumes the Budget Stabilization Fund will be restored to the amount of \$276 million.

BASIS OF ACCOUNTING

The Comptroller is responsible for the maintenance of the State's fiscal accounting records. The Comptroller provides accounting control over the cash on hand in a specific fund or funds (the "Cash Balances") for which the Treasurer is accountable, control over the issuance of warrants for payments of agencies' expenditures and control to ensure that State payments do not exceed legal appropriations and available fund balances. The Comptroller's records are kept on a basis of accounting wherein receipts are recognized at the time cash funds are ordered into the State Treasury by the Comptroller. Prior to Fiscal Year 1998, disbursements were recognized when payment warrants were issued. Since Fiscal Year 1998, disbursements have been recognized when vouchers have been approved and released for payment.

As the fiscal control officer of the State, the Comptroller issues an Annual Report detailing receipts and expenditures for each year. Since 1981 the Comptroller has issued a Comprehensive Annual Financial Report ("CAFR"), which includes General Purpose Financial Statements prepared according to Generally Accepted Accounting Principles ("GAAP") and statements of budgetary fund balances and changes in budgetary fund balances for all fund groups.

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TABLE 5
BUDGET PLAN - GENERAL FUNDS
FY 2009 TO 2011
(\$ IN MILLIONS)

TABLE 5: GENERAL FUNDS - BUDGET RESULTS & BUDGET PLANS FY2009-FY2011

1/18/2011

	Fiscal Year 2009	Actual	Fiscal Year 2010 Revised Budget (March 2010)	Fiscal Year 2010 Preliminary Results (Unaudited) (September 2010)	Fiscal Year 2011 Enacted Budget (July 2010)	Fiscal Year 2011 Revised Budget (January 2011)
OPERATING REVENUES PLUS TRANSFERS IN						
REVENUES						
State Sources	\$ 20,984		\$ 19,085	\$ 19,334	\$ 19,712	\$ 22,655
Federal Sources	\$ 6,567		\$ 6,743	\$ 5,920	\$ 6,227	\$ 5,976
TOTAL REVENUES		\$ 27,551	\$ 25,828	\$ 25,254	\$ 25,939	\$ 28,631
STATUTORY TRANSFERS IN						
Statutory Transfers In	\$ 1,593		\$ 2,167	\$ 1,836	\$ 1,716	\$ 1,622
TOTAL TRANSFERS		\$ 1,593	\$ 2,167	\$ 1,836	\$ 1,716	\$ 1,622
TOTAL OPERATING REVENUES PLUS TRANSFERS IN		\$ 29,144	\$ 27,995	\$ 27,090	\$ 27,655	\$ 30,253
OPERATING EXPENDITURES AND TRANSFERS OUT						
CURRENT YEAR EXPENDITURES						
APPROPRIATIONS (Total Budget) ¹	\$ 27,796		\$ 26,309 ¹	\$ 26,357 ¹	\$ 25,831	\$ 26,614
Less: Unspent Appropriations (Unspent Budget plus Uncashed Checks)	(\$507)		(\$400)	(\$1,099)	(\$891)	(\$891)
Equals: Current Year Expenditures before Pensions	\$ 27,288		\$ 25,909	\$ 25,258	\$ 24,940	\$ 25,723
PENSION CONTRIBUTIONS	\$ 2,486		\$ - ¹	\$ - ¹	\$ 4,157	\$ 4,157
Less: Savings from Pension Stabilization	\$ -		\$ -	\$ -	\$ -	\$ -
Equals: CURRENT YEAR EXPENDITURES (Net Appropriations Spent)		\$ 29,775	\$ 25,909	\$ 25,258	\$ 29,097	\$ 29,880
STATUTORY TRANSFERS OUT						
Legislatively Required Transfers (Diversions to Other Funds)	\$ 1,897		\$ 2,002	\$ 1,251	\$ 1,823	\$ 1,823
Debt Service Transfers for Capital Projects	\$ 636		\$ 670	\$ 670	\$ 645	\$ 570
Debt Service on FY10 Medicaid Borrowing	\$ -		\$ -	\$ 63	\$ 183	\$ 189
Debt Service on FY11 GO Restructuring Bonds ⁴	\$ -		\$ -	\$ -	\$ -	\$ 120
Pension Obligation Bond Debt Service (includes FY10 Pension Funding Bonds)	\$ 466		\$ 564	\$ 564	\$ 1,754	\$ 1,725
Plus: Transfers Payable by year end ²	\$ 185		\$ -	\$ 991	\$ -	\$ -
TOTAL TRANSFERS OUT		\$ 3,184	\$ 3,236	\$ 3,539	\$ 4,406	\$ 4,426
TOTAL OPERATING EXPENDITURES AND TRANSFERS OUT		\$ 32,959	\$ 29,145	\$ 28,797	\$ 33,502	\$ 34,306
BUDGET BASIS FINANCIAL RESULTS AND BALANCE						
BUDGET BASIS OPERATING SURPLUS (DEFICIT) [Receipts less Payments]		(\$3,815)	(\$1,150)	(\$1,707)	(\$5,847)	(\$4,053)
OTHER FINANCIAL SOURCES (USES)						
Short-Term Borrowing Proceeds ³	\$2,400		\$1,250	\$1,526	\$1,300	\$1,300
Repay Short-Term Borrowing (including interest)	(\$1,424)		(\$2,295)	(\$2,276)	(\$1,317)	(\$1,317)
Pension Obligation Bond FY2011	\$0		\$0	\$0	\$3,700	\$4,050
Tobacco Revenue Liquidation	\$0		\$0	\$0	\$1,200	\$1,250
Inter Fund Borrowing (Balance)	\$0		\$0	\$0	\$964	\$500
Proposed FY11 GO Restructuring Bond ⁵	\$0		\$0	\$0	\$0	\$4,380
TOTAL OTHER FINANCIAL SOURCES (USES)		\$976	(\$1,045)	(\$750)	\$5,848	\$10,164
BUDGET BASIS SURPLUS (DEFICIT) FOR FISCAL YEAR ⁶		(\$2,839)	(\$2,195)	(\$2,458)	\$0	\$6,110
Plus: Budget Basis Fund Balance at Beginning of the Fiscal Year		(\$834)	(\$3,673)	(\$3,673)	(\$6,475)	(\$6,131)
BUDGET BASIS FUND BALANCE (DEFICIT) AT END OF FISCAL YEAR		(\$3,673)	(\$5,869)	(\$6,131)	(\$6,475)	(\$21)
CASH BASIS FINANCIAL RESULTS						
BUDGET BASIS SURPLUS (DEFICIT) FOR FISCAL YEAR		(\$2,839)	(\$2,195)	(\$2,458)	\$0	\$6,110
Change in Accounts Payable (Change in Lapse Period Amounts)						
Accounts Payable at End of Prior Fiscal Year	\$975		\$3,953 ²	\$3,953 ²	\$6,410 ⁴	\$6,410 ⁴
Less: Accounts Payable at End of Current Fiscal Year ^{2,4}	(\$3,953)		(\$6,148)	(\$6,410)	(\$6,410)	(\$1,800)
Equals: Increase(Paydown) of Accounts Payable During Fiscal Year		\$2,978	\$2,195	\$2,457	(\$0)	(\$4,610)
CASH BASIS SURPLUS (DEFICIT) FOR FISCAL YEAR ⁷		\$139	\$0	\$0	\$0	\$1,500
CASH POSITION						
CASH BASIS SURPLUS (DEFICIT) FOR FISCAL YEAR		\$139	\$0	\$0	\$0	\$1,500
Plus: Cash Balance in General Funds at Beginning of Fiscal Year		\$ 141	\$ 280	\$ 280	\$ 130	\$ 280
Equals: Cash Balance in General Funds at End of Fiscal Year		\$ 280	\$ 280	\$ 280	\$ 130	\$ 1,780
Plus: Cash Balance in Budget Stabilization Fund at End of Fiscal Year		\$ 276	\$ 276	\$ -	\$ 276	\$ 276
Equals: Total Cash at End of Fiscal Year		\$ 556	\$ 556	\$ 280	\$ 406	\$ 2,056
ACCOUNTS PAYABLE AT YEAR END (Budget Basis)		\$3,953	\$6,148	\$6,410	\$6,410	\$1,800

¹ FY2010 appropriations do not reflect the FY2010 statutory pension contribution for the General Funds. That amount was financed and paid through issuance of approximately \$3,466 million in General Obligation Bonds, Taxable Series of January 2010. However, during the fiscal year, approximately \$843 million was initially paid from the General Funds to the State's pension systems, pursuant to a continuing appropriation for FY2009 pension contributions. Subsequently, the General Funds were reimbursed by that same amount from proceeds of the January 2010 bond issuance. Given that exact offset, and since neither the fund balance or cash position of the General Funds was therefore affected as of June 30, 2010, both the appropriation expenditure and reimbursement are excluded from the respective accounts for purposes of presentation and comparability purposes. FY2011 appropriations assume an \$800 million supplemental appropriation in order to maximize additional Federal reimbursements under ARRA which sunsets on June 30, 2011.

² FY2009 Transfers Out and FY2009 Accounts Payable include \$185 million of FY 2009 Statutory Expenditures that were not executed (i.e., cash transfers were not made) as of June 30, 2009, per the Traditional Budgetary Financial Report for FY 2009 issued by the Illinois Office of the Comptroller. Those transfers were subsequently effectuated in July of 2009.

³ FY2010 includes \$276 million of internal borrowings from the Budget Stabilization Fund that remained outstanding as of June 30, 2010. (Also see Note #4 below.)

⁴ FY2010 Transfers Out and FY2010 Accounts Payable include \$991 million of FY2010 statutory transfers that were not executed (i.e., cash transfers were not made) as of June 30, 2010, per the Illinois Office of the Comptroller. Such unexecuted statutory transfers are considered Transfers Payable for this presentation and reflected in the estimated June 30, 2010 Accounts Payable amount. In addition, approximately \$276 million of cash was not transferred back to the Budget Stabilization Fund as of June 30, 2010, such that the total of FY2010 statutory transfers not executed by year end totaled approximately \$1,266 million; that amount is reflected in the ending Accounts Payable reported as of that same date.

⁵ Proposed GO Restructuring Bond of approximately \$5,750 million with \$4,380 million used to pay down outstanding Accounts Payable.

⁶ Budget Basis Surplus (Deficit) equals "Operating Revenues and Transfers In" minus "Operating Expenditures and Transfers Out" plus (minus) "Other Financing Sources (Uses)"

⁷ Cash Basis Surplus (Deficit) equals "Budget Basis Surplus (Deficit)" minus (plus) Other Cash Uses (Sources) relating to changes in Accounts Payable during the fiscal year.

Note: Table 5 does not reflect the effect, if any, of a ruling by the Illinois State courts in favor of the petitioners in the case of *Wirtz v. Quinn, et al.*, No. 09-CH-30136 (Ill. Cir. Ct., Cook County) and No. 09-3163 (Ill. Appellate Ct., First Dist.). See "LITIGATION-Tax Protest Litigation" herein.

TABLE 5A
BUDGET PLAN - GENERAL FUNDS
FY 2010 TO 2012
(\$ IN MILLIONS)

TABLE 5A: GENERAL FUNDS - BUDGET RESULTS & BUDGET PLANS FY2010-FY2012				
	Fiscal Year 2010 Preliminary Results (Unaudited) (February 2011)	Fiscal Year 2011 Revised Budget (January 2011)	Fiscal Year 2011 Revised Budget (February 2011)	Fiscal Year 2012 Proposed Budget (February 2011)
OPERATING REVENUES & TRANSFERS IN (OPERATING RECEIPTS)				
REVENUES				
State Sources	\$ 19,334	\$ 22,655	\$ 22,799	\$ 27,278
Federal Sources	\$ 5,920	\$ 5,976	\$ 5,506	\$ 4,844
TOTAL REVENUES	\$ 25,254	\$ 28,631	\$ 28,305	\$ 32,122
STATUTORY TRANSFERS IN				
Statutory Transfers in	\$ 1,836	\$ 1,622	\$ 1,803	\$ 1,810
Inter Fund Borrowings	\$ -	\$ 500	\$ 505	\$ -
TOTAL TRANSFERS	\$ 1,836	\$ 2,122	\$ 2,308	\$ 1,810
TOTAL OPERATING REVENUES & TRANSFERS IN	\$ 27,090	\$ 30,753	\$ 30,613	\$ 33,932
OPERATING EXPENDITURES & TRANSFERS OUT (OPERATING PAYMENTS)				
CURRENT YEAR EXPENDITURES				
APPROPRIATIONS (Total Budget) ¹	\$ 26,354	\$ 26,614	\$ 26,071	\$ 26,733
Minus: Unspent Appropriations (Unspent Budget plus Uncashed Checks)	(\$1,189) ⁷	(\$891) ⁷	(\$1,758) ⁷	(\$802) ⁷
Equals: Current Year Expenditures before Pension Contributions	\$ 25,165	\$ 25,723	\$ 24,313	\$ 25,931
PENSION CONTRIBUTIONS (General Funds only)	\$ -	\$ 4,157	\$ 3,919	\$ 4,594
Equals: CURRENT YEAR EXPENDITURES (Net Appropriations Spent)	\$ 25,165	\$ 29,880	\$ 28,233	\$ 30,525
STATUTORY TRANSFERS OUT				
Legislatively Required Transfers (Diversions to Other Funds)	\$ 975	\$ 1,823	\$ 2,061	\$ 2,317
Plus: Transfers Payable (at fiscal year end) ²	\$ 1,267	\$ -	\$ -	\$ -
Debt Service on Pension Obligation Bonds (includes FY10 & FY11 Pension Bonds)	\$ 564	\$ 1,725	\$ 1,734	\$ 1,559
Debt Service Transfers for Capital Projects	\$ 670	\$ 570	\$ 570	\$ 578
Debt Service on proposed FY11 GO Restructuring Bonds ³	\$ -	\$ 120	\$ 98	\$ 403
Debt Service on FY10 Medicaid Borrowing	\$ 63	\$ 189	\$ 189	\$ -
Inter Fund Borrowing Repayments including Budget Stabilization Fund ²	\$ -	\$ -	\$ 781	\$ -
TOTAL STATUTORY TRANSFERS OUT	\$ 3,539	\$ 4,426	\$ 5,433	\$ 4,887
TOTAL OPERATING EXPENDITURES & TRANSFERS OUT	\$ 28,705	\$ 34,306	\$ 33,666	\$ 35,382
BUDGET BASIS FINANCIAL RESULTS AND BALANCE				
BUDGET BASIS OPERATING SURPLUS (DEFICIT) [Oper. Receipts less Oper. Pymts.]	(\$1,615)	(\$3,553)	(\$3,054)	(\$1,450)
OTHER FINANCIAL SOURCES (USES)				
Short-Term Borrowing Proceeds	\$1,250	\$1,300	\$1,300	\$0
Short-Term Borrowing Repayments (including interest)	(\$2,276)	(\$1,317)	(\$1,317)	\$0
Pension Obligation Bond proceeds for FY11	\$0	\$4,050	\$3,680	\$0
Tobacco Revenue Securitization (in FY11) proceeds	\$0	\$1,250	\$1,250	\$0
Proposed FY11 General Obligation Restructuring Bond ³	\$0	\$4,380	\$4,000	\$1,450
TOTAL OTHER FINANCIAL SOURCES (USES)	(\$1,026)	\$9,664	\$8,914	\$1,450
BUDGET BASIS SURPLUS (DEFICIT) FOR FISCAL YEAR ⁴	(\$2,641)	\$6,110	\$5,860	\$0
Plus: Budget Basis Fund Balance at Beginning of Fiscal Year	(\$3,673)	(\$6,131)	(\$6,314)	(\$454)
BUDGET BASIS FUND BALANCE (DEFICIT) AT END OF FISCAL YEAR	(\$6,314)	(\$21)	(\$454)	(\$454)
CASH BASIS FINANCIAL RESULTS				
BUDGET BASIS SURPLUS (DEFICIT) FOR FISCAL YEAR	(\$2,641)	\$6,110	\$5,860	\$0
Change in Accounts Payable (Change in Lapse Period Amounts)	\$6,444	\$1,800	\$600	\$600
Accounts Payable at End of Current Fiscal Year ^{2,5}	\$6,444	\$1,800	\$600	\$600
Minus: Accounts Payable at End of Prior Fiscal Year ^{2,5,6}	minus \$3,953	minus \$6,410	minus \$6,444	minus \$600
Equals: Increase/(Paydown) of Accounts Payable During Fiscal Year	\$2,491	(\$4,610)	(\$5,844)	\$0
CASH BASIS SURPLUS (DEFICIT) FOR FISCAL YEAR ⁷	(\$150)	\$1,500	\$16	\$0
CASH POSITION				
CASH BASIS SURPLUS (DEFICIT) FOR FISCAL YEAR	(\$150)	\$ 1,500	\$ 16	\$ 0
Plus: Cash Balance in General Funds at Beginning of Fiscal Year	\$ 280	\$ 130	\$ 130	\$ 146
Equals: Cash Balance in General Funds at End of Fiscal Year	\$130	\$ 1,631	\$ 146	\$ 146
Plus: Cash Balance in Budget Stabilization Fund at End of Fiscal Year ²	\$ -	\$ 276	\$ 276	\$ 276
Equals: Total Cash at End of Fiscal Year	\$ 130	\$ 1,907	\$ 422	\$ 422
ACCOUNTS PAYABLE AT FISCAL YEAR END (Budget Basis) ⁶	\$6,444	\$1,800	\$600	\$600

FY2010 appropriations do not reflect the FY2010 statutory pension contribution for the General Funds. That amount was financed and paid through issuance of approximately \$3,466 million in General Obligation Bonds, Taxable Series of January 2010. However, during the fiscal year, approximately \$843 million was initially paid from the General Funds to the State's pension systems, pursuant to a continuing appropriation for FY2009 pension contributions. Subsequently, the General Funds were reimbursed by that same amount from proceeds of the January 2010 bond issuance. Given that exact offset, and since neither the fund balance nor cash position of the General Funds was therefore affected as of June 30, 2010, both the appropriation expenditure and reimbursement are excluded from the respective accounts for purposes of this presentation and comparability purposes. In addition, FY2011 incorporates approximately \$383 million in supplemental appropriations as proposed in Table I-B.

FY2010 Transfers Out and FY2010 Accounts Payable include \$991 million of FY2010 statutory transfers that were not executed (i.e., cash transfers were not made) as of June 30, 2010, per the Illinois Office of the Comptroller. Such unexecuted statutory transfers are considered Transfers Payable for this presentation and reflected in the estimated June 30, 2010 Accounts Payable amount. In addition, approximately \$276 million of cash was not transferred back to the Budget Stabilization Fund as of June 30, 2010, such that the total of FY2010 statutory transfers not executed by year end totaled approximately \$1,267 million; that amount is reflected in the ending Accounts Payable reported as of that same date. The FY2011 Revised Budget assumes the Budget Stabilization Fund will be replenished by June 30, 2011 and the \$505 million of Inter Fund Borrowing assumed in Fiscal Year 2011 will be repaid.

The proposed General Obligation Restructuring Bond will earmark approximately \$4,000 million of proceeds in FY2011 to the General Fund and another \$1,450 million in FY2012, to reduce Accounts Payable to approximately \$600 million by June 30, 2012. The balance of the Restructuring Bond proceeds will be deposited in Other State Funds including the Health Care Provider Fund (for Medicaid supplemental match to receive higher Federal match), the Income Tax Refund Fund (for Corporate tax refunds) and the Group Health Insurance Fund (to reduce backlog).

Budget Basis Surplus (Deficit) equals "Operating Revenues and Transfers In" minus "Operating Expenditures and Transfers Out" plus (minus) "Other Financing Sources (Uses)"

Budget Basis Accounts Payable excludes incurred liabilities of that fiscal year that do not have sufficient appropriation authority remaining to be paid during the Lapse Period (i.e., 60 days after the close of that fiscal year). However, such incurred liabilities (termed "Section 25 liabilities," pursuant to statute) are reflected in the audited Comprehensive Annual Financial Report (CAFR) that is prepared on the basis of generally accepted accounting principles for governments. Historically, Medicaid and group health insurance payments constitute the majority of Section 25 liabilities.

FY2009 Transfers Out and FY2009 Accounts Payable include \$185 million of FY 2009 Statutory Expenditures that were not executed (i.e., cash transfers were not made) as of June 30, 2009, per the Traditional Budgetary Financial Report for FY 2009 issued by the Illinois Office of the Comptroller. Those transfers were subsequently effectuated in July of 2009.

Cash Basis Surplus (Deficit) equals "Budget Basis Surplus (Deficit)" minus (plus) Other Cash Uses (Sources) relating to changes in Accounts Payable during the fiscal year.

NOTE: Table 5 does not reflect the effect, if any, of a ruling by the Illinois State courts in favor of the petitioners in the case of Wirtz v. Quinn, et al., No. 09-CH-30136 (Ill. Cir. Ct., Cook County) and No. 09-3163 (Ill. Appellate Ct., First Dist.). See "LITIGATION-Tax Protest Litigation" herein.

TABLE 6
STATE OF ILLINOIS
GENERAL FUNDS RECONCILIATION
FISCAL YEAR 2009
(\$ IN THOUSANDS)

	Cash Basis	Adjustments for Budgetary Basis	Budgetary Basis	Adjustments for GAAP	GAAP Basis
Revenues:					
Income Taxes (net)	\$10,932,843	\$ -	\$10,932,843	\$ (128,604)	\$10,804,239
Sales Taxes (net)	6,772,792	7	6,722,799	(114,214)	6,658,585
Public Utility Taxes (net)	1,167,764	-	1,167,764	598	1,168,362
Federal Government (net)	6,495,655	-	6,495,655	2,628,640	9,124,295
Other (net)	2,097,691	-	2,097,691	2,308,518	4,406,209
Total Revenues	\$27,466,745	\$ 7	\$27,466,752	\$ 4,694,938	\$32,161,690
Expenditures:					
Current:					
Health and Social Services	13,906,767	1,492,513	15,399,280	3,196,532	18,595,812
Education	10,251,577	1,088,851	11,340,428	597,181	11,937,609
General Government	654,485	56,442	710,927	192,217	903,144
Employment and Economic Development	133,885	(7,421)	126,464	4,184	130,648
Transportation	20,172	5,314	25,486	41,030	66,516
Public Protection and Justice	1,894,344	156,571	2,050,915	312,278	2,363,193
Environment and Business Regulation	81,709	2,435	84,144	38,806	122,950
Debt Service:					
Principal	-	-	-	1,935	1,935
Interest	-	-	-	924	924
Capital Outlays	22,026	(1,653)	20,373	(10,125)	10,248
Total Expenditures	\$26,964,965	\$ 2,793,052	\$29,758,017	\$ 4,374,962	\$34,132,979
Excess of Revenues Over Expenditures	\$ 501,780	\$ (2,793,045)	\$(2,291,265)	\$ 319,976	\$(1,971,289)
Other Sources (Uses) of Financial Resources:					
Transfers In	6,151,663	-	6,151,663	(3,181,539)	2,970,124
Transfers Out	(8,914,166)	(184,569)	(9,098,735)	4,456,118	(4,642,617)
Proceeds from General and Special Obligation Bond Issues	2,400,000	-	2,400,000	(2,400,000)	-
Proceeds from Capital Lease Financing	-	-	-	916	916
Net Other (Uses) of Financial Resources	\$ (362,503)	\$ (184,569)	\$ (547,072)	\$ (1,124,505)	\$(1,671,577)
Excess of Revenues Over Expenditures and Net Other (Uses) of Financial Resources	\$ (139,277)	\$ (2,977,614)	\$ (2,838,337)	\$ (804,529)	\$(3,642,866)
Fund Balances (Deficit) July 1, 2008	140,541	(975,032)	(834,491)	(3,099,830)	(3,934,321)
Restatement	-	-	-	(101,999)	(101,099)
Fund balances (Deficit) July 1, 2008, as restated	140,541	(975,032)	(834,491)	(3,200,929)	(4,035,420)
Increase (decrease) for changes in inventories	-	-	-	(3,217)	(3,217)
Fund Balances (Deficit) June 30, 2009	\$ 279,818	\$ (3,952,646)	\$(3,672,828)	\$ (4,008,675)	\$ (7,681,503)

Source: Based on information from the Comptroller and derived from the State's FY 2009 Comprehensive Annual Financial Report, which may be found at: www.apps.ioc.state.il.us/ioc-pdf/CAFR_2009.pdf.

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GAAP FINANCIAL REPORT

The complete General Purpose Financial Statements for Fiscal Year 2009, prepared in accordance with GAAP, have been filed with each nationally recognized municipal securities information repository and are incorporated herein by reference thereto. Such Statements are also available upon request from the Comptroller at (217) 782-6000 or from the Comptroller's webpage at www.illinoiscomptroller.com. These statements were prepared by the Comptroller and examined and certified by the State Auditor General. For Fiscal Year 2009 the Auditor General has expressed an unqualified opinion on the General Purpose Financial Statements.

Note 1 – Cash/Budget to GAAP Perspective Difference

On the GAAP basis, the Medicaid Provider Assessment Program Funds and the Income Tax Refund Fund 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 \$3,672,828 equals the June 30, 2009 cash balance of \$279,818 less cash lapse period expenditures and transfers-out of \$3,952,646. Adjustments from the cash basis of accounting for Fiscal Year 2009 to the budgetary basis include adding Fiscal Year 2009 lapse period spending (July 1 – August 31, 2009) and subtracting Fiscal Year 2008 lapse period spending (July 1 – August 31, 2008). 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 2009 “lapsing accounts.” These expenditures include refunds which have been netted against the related revenue. Lapse period transfers-out are statutory transfers approved on or prior to June 30, 2009 but not made until after June 30, 2009.

Note 3 – Budget to GAAP Adjustments

A detail of the reconciliation of the budgetary basis vs. GAAP is presented in the Notes to Required Supplemental Information in the Comprehensive Annual Financial Report. Significant differences noted in the financial statements include recording accounts receivable, deferred revenue and accounts payable at year-end. Accounts payable include liabilities which will be paid from future year appropriations (e.g., income tax refunds, Public Aid medical reimbursements and payments to local school boards for State Board of Education reimbursement programs).

There were also classification differences between the budgetary basis and GAAP. Interest paid on income tax refunds is reported as general government expenditures for GAAP reporting purposes and as a reduction of revenues in the budgetary presentation. In addition, transfers from the General Revenue Fund to the Common School Fund and from the Common School Special Account to the Common School Fund, which are reported on the budgetary basis, have been eliminated for GAAP reporting purposes.

Note 4 – Restatement

The June 30, 2008 fund balance for the General Fund has been restated \$101,099 from a deficit of \$3,934,321 to a deficit of \$4,035,420. The restatement was due to the understatement of reimbursements owed to the Workers' Compensation Revolving Fund.

TAX STRUCTURE

GENERAL FUNDS

The General Funds receive the major share of tax revenues from the following five sources:

Personal Income Tax: Effective January 1, 2011 the personal income tax liability is 5.0% (increased from 3.0%) of each taxpayer's Illinois net income with a \$2,000 exemption allowed for the taxpayer, the

taxpayer's spouse, and each dependent claimed on their federal return. There are also additional \$1,000 exemptions for the elderly and for the blind. Effective January 1, 2015 the personal income tax will be lowered to 3.75% and effective January 1, 2025 lowered to 3.25% respectively.

The Income Tax Refund Fund (the "Refund Fund") was created in 1989. Both corporate and personal income tax refunds are paid from the Refund Fund rather than the General Revenue Fund. The annual percentage of corporate or personal income tax collections deposited into the Refund Fund (the "Refund Fund Rate") is set by statute for some years and for other years is determined by a formula, the numerator of which is the prior year income tax refunds paid or approved for payment, and the denominator is the prior year income tax collections. For Fiscal Year 2010 and proposed for Fiscal Year 2011, the state has maintained the same Refund Fund Rates (described below) as utilized in Fiscal Year 2009, resulting in an estimated increase in the Refund Fund backlog for corporate income tax refunds to an estimated balance of approximately \$690.1 million by the end of Fiscal Year 2010 and \$868 million by the end of Fiscal Year 2011. Should the Restructuring Bonds discussed in the revised Fiscal Year 2011 Budget above (See "STATE FINANCIAL INFORMATION – REVISED FISCAL YEAR 2011 BUDGET") be approved, funds from such bonds will be used to partially reduce the backlog.

The Refund Fund rate for personal income taxes was statutorily set at 7.1% for Fiscal Years 1999 - 2001 to accommodate increases to the personal exemption. In Fiscal Year 2002, the Refund Fund rate for personal income taxes was determined by the statutory formula, with a cap of 7.6%. In Fiscal Year 2003, the Refund Fund rate for personal income taxes was set at 8.0%. The Refund Fund rate for Fiscal Year 2004 for personal income taxes was set at 11.7%. The statutory rates were set at 10.0% for Fiscal Year 2005, and 9.75% through Fiscal Year 2007. The Fiscal Year 2008 and Fiscal Year 2009 budget adopted a 7.75% and 9.75% rate, respectively. The Fiscal Year 2010 and Fiscal Year 2011 adopted a 9.75% and 8.75% rate, respectively.

7.3% of all personal income tax collections not deposited into the Refund Fund is deposited into the Education Assistance Fund. All personal income tax collections, not deposited into the Education Assistance Fund or the Refund Fund, are deposited into the General Revenue Fund. In addition, 10.0% of all personal income tax collections not deposited into the General Revenue Fund is transferred to the Local Government Distributive Fund. The Fiscal Year 2011 Budget proposes reducing that rate to 7.0%.

Corporate Income Tax: Effective January 1, 2011 the corporate income tax liability is 7.0% (increased from 4.8%) of each corporation's net income and effective January 1, 2015 will be lowered to 5.25% and on January 1, 2025 lowered to 4.8% respectively. The State Constitution requires that the basic corporate income tax rate not exceed the personal income tax rate by more than a ratio of 8:5. Multi-state corporations have corporate income apportioned to Illinois using a fraction equal to their sales attributable to Illinois divided by their total sales.

The Refund Fund rate for corporate income taxes was statutorily set at 19.0% for Fiscal Years 1999 - 2001 to accommodate the changes to the apportionment formula. In Fiscal Year 2002, the Refund Fund rate for corporate income taxes was determined by the statutory formula, with a cap of 23.0%. In Fiscal Year 2003, the Refund Fund rate for corporate income taxes was set at 27.0%. The Refund Fund rate for Fiscal Year 2004 for corporate income taxes was set at 32.0%. The statutory rates were set at 24%, 20% and 17.5% for Fiscal Years 2005, 2006 and 2007, respectively. The Fiscal Year 2008 and Fiscal Year 2009 budget adopted a 15.5% and 17.5% rate, respectively. The Fiscal Year 2010 and Fiscal Year 2011 budget adopted a 17.5% rate.

7.3% of all corporate income tax collections not deposited into the Refund Fund is deposited into the Education Assistance Fund. All corporate income tax collections, not deposited into the Education Assistance Fund or the Refund Fund, are deposited into the General Revenue Fund. In addition, 10.0% of all corporate income tax collections not deposited into the General Revenue Fund is transferred to the Local Government Distributive Fund. The Fiscal Year 2011 Budget proposes reducing that rate to 7.0%. Corporations are also subject to a Personal Property Tax Replacement Income Tax at a rate of 2.5% (1.5% for a partnership, trust, or Subchapter S corporation), imposed to replace for local governments the

corporate personal property tax which was abolished on January 1, 1979. The replacement income tax is distributed to local governments by the State.

Sales Tax: The State levies a sales and use tax on retail sales of tangible personal property, subject to certain exemptions. Food for human consumption that is to be consumed off the premises where sold (other than alcoholic beverages, soft drinks and food that has been prepared for immediate consumption), as well as prescription and nonprescription medicines, drugs, medical appliances, modifications to a motor vehicle for the purpose of rendering it usable by a disabled person, and insulin, urine testing materials, syringes, and needles used by diabetics, for human use are taxed at the reduced State rate of 1.0%. Revenues on these latter items are distributed to local jurisdictions.

On and after September 1, 2009, however, “candy” is taxed at the rate of 6.25%, rather than as a food at 1.0%. In addition, “grooming and hygiene products,” some of which were previously taxed as medicines at 1.0%, are now taxed at the rate of 6.25%. Also, effective September 1, 2009, the definition of “soft drink” changed. As a result, beverages that were previously not considered to be soft drinks are now included in the definition of “soft drinks” and are taxed at the 6.25% rate (for example, sweetened tea). Beginning October 1, 2009, each month the Department of Revenue must pay into the Capital Project Fund an amount that is equal to an amount estimated by the Department of Revenue to represent 80.0% of the net revenue realized for the preceding month from the sale of candy, grooming and hygiene products, and soft drinks that had been taxed at the 1.0% rate prior to September 1, but which are taxed at 6.25% on and after September 1, 2009.

The sales and use tax rate on general merchandise is 6.25%, comprised of the State’s portion of 5.0% and the local government’s portion of 1.25%. As noted above, a reduced rate applies to qualifying food and drugs (revenues are distributed to local jurisdictions). The 6.25% tax is applied to a standard base, meaning counties and municipalities must tax the same items as the State. The State also imposes a tax on tangible personal property transferred incident to sales of service. This tax (as well as a corresponding Service Use Tax) is imposed at the rate of 6.25% and generally contains exemptions identical to those in the retail tax. Revenues from the State’s 5.0% are distributed 25.0% percent into the Common School Fund and 75.0% into the General Revenue Fund after a series of transfers into other State funds (including the Build Illinois Fund and the Illinois Tax Increment Fund).

Public Utility Taxes: Public utility tax receipts are comprised of taxes on electricity, natural gas, and telecommunications. In Fiscal Year 2006, public utility taxes provided 3.9% of General Fund revenues. The Gas Revenue Tax is imposed on gas utilities at the lesser of 5.0% of gross receipts or 2.4 cents per therm. Revenues from the Gas Revenue Tax are deposited into the General Revenue Fund. The Gas Use Tax is imposed upon users for gas purchased out of state, and is imposed at the same rate as the Gas Revenue Tax (5.0% of the purchase price or 2.4 cents per therm). Revenues from the Gas Use Tax are deposited into the General Revenue Fund. The tax on electricity is a per kilowatt hour tax on end-user usage, with the marginal tax rate declining as usage increases during the month. Any purchasers for non-residential electric use may opt to be “self-assessing purchasers” and pay at the rate of 5.1% of purchase price of the electricity that is used or consumed in a month. Three percent of the revenues from the Electricity Excise Tax is deposited into the Public Utility Fund (less \$416,667 per month, which is paid into the General Revenue Fund); the remainder is deposited into the General Revenue Fund.

The Telecommunications Excise Tax Act was amended in 1998 to raise the tax on the privilege of originating or receiving telecommunications from 5.0% to 7.0% of gross receipts charged to a taxpayer’s service address in Illinois. One half of the additional revenue is deposited into the Common School Fund, and one-half is deposited into the School Infrastructure Fund. The remainder is deposited into the General Revenue Fund. Transfers from the School Infrastructure Fund are made to the GOBRI Fund as a supplementary source for debt service on school construction bonds issued under Section 5(e) of the Bond Act.

Cigarette Tax: The cigarette tax is 49 mills per cigarette (98 cents per package of 20 cigarettes) and was last increased by 20 mills (40 cents per package of 20 cigarettes) effective July 1, 2002. From the total tax

collected \$29.2 million a month is deposited into the General Revenue Fund and \$5 million a month is deposited into the School Infrastructure Fund for debt service payments on an expansion of the school construction grant program. Remaining cigarette tax revenues are deposited into the Long Term Care Provider Fund.

ROAD FUND

The Road Fund receives the bulk of its State revenues from motor fuel taxes and vehicle registration fees.

Motor Fuel Tax: The State imposes the following taxes on the privilege of operating motor vehicles on the public highways and recreational-type watercraft upon the waterways of the State:

- Motor fuel tax of 19 cents per gallon;
- Additional motor fuel tax on diesel fuel of 2.5 cents per gallon (21.5 cents per gallon on diesel fuel);
- Leaking Underground Storage Tank (LUST) tax of 0.3 cents per gallon and Environmental Impact Fee (EIF) (\$60 per 7500 gallons of fuel, equivalent to 8/10 of a cent per gallon) for a total of 1.1 cents per gallon on fuel received in Illinois; and
- Motor Fuel Use Tax is imposed upon the use of motor fuel upon highways in the State by commercial motor vehicles. The tax is comprised of 2 parts. Part (a) is comprised of the motor fuel tax (19 cents per gallon or 21.5 cents per gallon for diesel fuel); Part (b) is the rate established by the Department of Revenue as of March 1 of each year using the average selling price per gallon of motor fuel sold in Illinois during the previous 12 months, multiplied by 6.25% to determine the cents per gallon rate.

Motor fuel tax receipts (except for LUST taxes and Environmental Impact Fees) are deposited into the Motor Fuel Tax (“MFT”) Fund. The revenues from the MFT Fund are split between the State and local government units after certain administrative expenses and a series of transfers out to other State funds. These revenues are split 45.6% to the State and 54.4% to the local governments. Of the State’s share, 37.0% is deposited into the State Construction Account Fund and 63.0% is deposited into the Road Fund. The local share of receipts is awarded as grants to municipalities, counties, townships and road districts.

The revenues from the additional diesel tax are transferred into the State Construction Account Fund which is used for highway construction. The revenues from the 1.1 cents per gallon LUST/EIF tax are transferred into the Underground Storage Tank Fund until March 1, 2013 (Public Act 96-0161, effective August 10, 2009 extends the LUST/EIF tax until March 1, 2025).

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 60.0% of these fees are paid into the Road Fund, and the remainder is paid into the State Construction Account Fund and other smaller funds. Motor vehicle registration fees are \$98 annually and large truck and trailer registration fees were on a scale ranging from \$135 for an 8,000 pound truck to \$2,790 for an 80,000 pound truck. Certificate of title fees are \$95. Since calendar year 2000, \$48 of each title fee increase has been deposited into the Road Fund and the remaining \$4 has been deposited into the Motor Vehicle License Plate Fund. Starting March 1, 2010, \$30 of each title fee increase will be deposited into the Capital Projects Fund.

MONEY PAID TO THE STATE UNDER PROTEST

Money paid to the State under protest is required to be placed by the Treasurer in a special fund known as the Protest Fund. Corporate income tax, personal property replacement tax, liquor tax and Insurance Privilege Tax comprise approximately 70.0% of the receipts into this fund. After 30 days from the date of payment into the Protest Fund, the money is to be transferred from the Protest Fund to the appropriate fund in which it would have been deposited had there been no protest. However, the party making the payment under protest may, within that 30-day period, file a complaint and secure a temporary injunction restraining the transfer from the Protest Fund. Under the injunction, the money is to remain in the Protest Fund until a final order or decree of a court determines the proper disposition of the money. As of January 15, 2011, the total Protest Fund balance was \$317.7 million.

INDEBTEDNESS

SHORT-TERM DEBT

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

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

The following table summarizes the State's history of issuing short-term debt.

TABLE 7
SHORT-TERM CERTIFICATES ISSUED
(\$ IN MILLIONS)

Date Issued	Amount Issued	Final Maturity
July 2010	\$1,300	June 2011
August 2009	1,250	June 2010
May 2009	1,000	June 2010
December 2008	1,400	June 2009
April 2008*	1,200	June 2008
September 2007*	1,200	November 2007
February 2007*	900	June 2007
November 2005	1,000	June 2006
March 2005*	765	June 2005
June 2004	850	October 2004
May 2003	1,500	May 2004
July 2002	1,000	June 2003
August 1995	500	June 1996
August 1994	687	June 1995
August 1993	900	June 1994
October 1992	300	June 1993
August 1992	600	May 1993
February 1992	500	October 1992
August 1991	185	June 1992
February 1987	100	February 1988
June-July 1983	200	May 1984

*Hospital Assessment Conduit Financings

GENERAL OBLIGATION BONDS

GO Bonds of the State may be authorized by a vote of three-fifths of the members of each house of the General Assembly or by a majority of the voters at a general election. The Bond Act consolidated the authorization contained in prior bond acts into a single act and currently authorizes the issuance of multiple and special purpose GO Bonds in the aggregate amount of \$23,020,777,443, excluding general

obligation refunding bonds, for capital purposes and \$17,562,348,300 of GO Bonds for pension funding purposes.

Excluded in the figures above and in Table 8 below are authorizations recently passed by the 96th General Assembly. On January 11, 2011, SB 3087 was passed approving \$4.2 billion in new GO Bond authorization for multi-purpose capital needs associated with the next phase of the Illinois Jobs Now! capital program. This legislation has been sent to the Governor.

Further, on January 12, 2011 SB 3514 was passed by the 96th General Assembly approving \$4.1 billion in bond authorization for funding the FY 2011 pension contribution. On January 14, 2011 the Governor signed this legislation into law as P.A. 96-1497.

The Bond Act was further amended, pursuant to Public Act 96-18, effective June 26, 2009, to increase the General Obligation refunding bonds authorization by \$2 billion.

The following table shows the statutory general obligation bond authorization and all GO Bonds outstanding as of March 10, 2011.

**TABLE 8
GENERAL OBLIGATION BONDS
(AS OF MARCH 10, 2011)**

Authorization Category	Amount Authorized³	Amount Issued	Authorized Unissued	Amount Outstanding
<i>Authorized under Current Bond Act^{1,3}</i>				
Multi-purpose	\$22,770,777,443	\$18,797,386,352	\$3,973,391,091	\$8,659,742,968
Special-purpose	250,000,000	246,095,000	3,905,000	246,095,000
Refunding Bonds ²	4,839,025,000	6,070,824,239	1,927,570,000	2,911,455,000
Subtotal	\$27,859,802,443	\$25,114,305,591	\$5,904,866,091	\$11,817,292,968
Pension Bonds	17,562,348,300	17,166,000,000	396,348,300	16,322,800,000
Total	\$45,422,150,743	\$42,280,305,591	\$6,301,214,391	\$28,140,092,968
Currently Authorized less Refunding	\$40,583,125,743			

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

² The State is authorized to issue \$4,839,025,000 of GO Bonds, at any time and from time to time outstanding, for the purpose of refunding any outstanding GO Bonds. The authorized unissued amount of refunding bonds is the difference between the amount authorized and the amount outstanding. Refunding bonds in the aggregate amount of \$3,159,369,239 were issued, have matured or have been refunded, and are no longer outstanding.

³ Excludes \$750,000,000 in tobacco securitization bonds as legislative authorization has expired.

Pursuant to the Bond Act, amounts in the Anti-Pollution bond retirement and interest fund were transferred to and consolidated in the GOBRI Fund. The GOBRI Fund is used to make debt service payments on outstanding GO Bonds issued for these purposes, on multiple purpose and refunding bonds issued under the Bond Act, and on short-term certificates issued as described above under "SHORT-TERM DEBT."

As of January 15, 2011 a total of \$792.9 million was available in the GOBRI Fund. The amount of outstanding GO Bonds shown above has not been reduced by the remaining amounts otherwise available in the GOBRI Fund.

INTEREST RATE EXCHANGE AGREEMENTS

In October 2003, the State entered into five separate, but substantially identical, interest rate exchange agreements (collectively, the "Agreements") to convert the variable rate on its Variable Rate General Obligation Bonds, Series B of October 2003, to a synthetic fixed rate. The Agreements have an aggregate

notional amount of \$600 million, bear a fixed rate of interest of 3.89% and were allocated among five separate counterparties (each a “Counterparty,” and collectively, the “Counterparties”). The Agreements are proportionate among the Counterparties, and the Agreement amounts are identified to and amortize with the Series B of October of 2003 variable rate bonds until their final maturity on October 1, 2033. Pursuant to Section 9(b) of the Bond Act, net payments under the Agreements shall be considered interest on such bonds, which shall be subject to continuing appropriation for payment by the General Assembly, and are general obligations of the State.

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

Counterparty	Notional Amount
Loop Financial Products*	\$384,000,000
Bank of America	54,000,000
AIG Financial Products Corp.	54,000,000
Merrill Lynch	54,000,000
JPMorgan Chase Bank	<u>54,000,000</u>
Total Notional Amount	\$600,000,000

* Deutsche Bank AG credit support

The State entered into the Agreements as a means of (1) lowering its borrowing costs when compared to fixed-rate bonds at the time of issuance and (2) limiting interest rate risk inherent in variable rate debt. The Agreements may expose the State to certain market and credit risks. The State may terminate the Agreements at any time at market value, or upon the occurrence of certain events. In addition, either the State or the Counterparties may terminate the Agreements if the other party fails to perform under the terms of the Agreements. A Counterparty may terminate its related Agreement if the State’s rating falls below “BBB” from S&P, “Baa” from Moody’s and “BBB” from Fitch. If the Agreements are terminated, the related bonds would continue to bear interest at a variable rate, and the State could be liable for a termination payment if the Agreements have a negative market value.

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HISTORICAL BORROWING

The following table summarizes the level of bond sales from Fiscal Years 2006-2011.

TABLE 9
GENERAL OBLIGATION BOND SALES
(\$ IN MILLIONS)

Fiscal Year	Capital Improvement	Refunding	Special Purpose	Pension
2006	\$925.0	\$275.0	-	-
2007	258.0	329.0	-	-
2008	125.0	-	-	-
2009	150.0	-	-	-
2010	2,456.0	1,501.3	\$246.1	\$3,466.0
2011 ¹	1,200.0	-	-	\$3,700.0

¹ Includes the Bonds expected to be issued pursuant to this Official Statement

INDEBTEDNESS IN PRIOR YEARS

The following table shows the outstanding general obligation bonded indebtedness of the State at the end of each fiscal year from 2005-2011.

TABLE 10
GENERAL OBLIGATION BONDS OUTSTANDING
(\$ IN MILLIONS)

End of Fiscal year	Capital Improvement	Special Purpose	Pension Funding¹
2005	\$ 9,893.00	-	\$10,000.00
2006	10,251.40	-	10,000.00
2007	9,925.70	-	10,000.00
2008	9,463.00	-	9,950.00
2009	9,051.80	-	9,900.00
2010	10,893.90	246.1	13,316.00
2011 ²	11,571.20	246.1	16,322.80

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

² Bonds outstanding as of March 10, 2011, including the Bonds expected to be issued pursuant to this Official Statement.

FUTURE FINANCINGS

The State evaluates its short-term cash needs from time to time and based on such evaluations may seek to issue additional short-term general obligation debt due within one year from its date of issuance.

The State continues to execute on its \$31 billion Illinois Jobs Now! capital program. See "STATE FINANCIAL INFORMATION— FISCAL YEAR 2011 CAPITAL BUDGET." As a result, the State will continue to issue bonds to finance capital expenditures, at such times and in such amounts as shall be determined by its capital investment program.

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.

SB336 was introduced into the General Assembly and amended in early January, 2011 to authorize the issuance of up to \$8.75 billion in General Obligation debt of the State for the specific purpose of restructuring outstanding vouchers and other unfunded liabilities of the State. SB336 contemplated the issuance of \$5.75 billion in General Obligation Restructuring Bonds in the spring of 2011 and an additional \$3 billion of such bonds in January of 2012. Repayment of these bonds was to come from an 0.5% increase in Individual Income Tax rates approved and passed by the General Assembly. SB336 was not passed by the General Assembly. It was been resubmitted for approval by the General Assembly as SB003. Passage of SB003 cannot be assured.

DEBT SERVICE PAYMENTS

Debt service of the State’s GO Bonds is paid from the GOBRI Fund. The GOBRI Fund receives transfers from the Road Fund to pay debt service on GO Bonds issued for Transportation A Highways purposes, from the School Infrastructure Fund and the General Revenue Fund to pay debt service on GO Bonds issued under Section 5(e) of the Bond Act and from the General Revenue Fund to pay debt service on GO Bonds issued for all other purposes.

Not including debt service on short-term debt certificates as may be from time to time outstanding; the following table shows debt service payments on GO Bonds from Fiscal Year 2005 through 2010 and the funds from which the transfers originate.

**TABLE 11
GENERAL OBLIGATION BONDS
DEBT SERVICE PAYMENTS¹
(\$ IN MILLIONS)**

	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
Road Fund	\$237.5	\$258.5	\$253.7	\$252.9	\$252.9	\$256.5
School Infrastructure Fund	200.7	230.1	232.9	235.9	223.1	228.7
General Funds	660.6	664.7	693.0	695.6	684.3	648.0
All Funds-Pension ¹	496.2	496.2	496.2	546.2	545.0	543.6

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

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MEASURES OF DEBT BURDEN

Tables 12, 13, 14 and 15 show various measures of the relative burden of the State's general obligation debt and debt service.

**TABLE 12
RATIO OF GENERAL OBLIGATION DEBT SERVICE
TO TOTAL GENERAL AND ROAD FUND APPROPRIATIONS
FISCAL YEARS 2005-2010**

Fiscal Year	Total Expenditures¹ (\$ In Millions)	Capital Improvement Bonds Debt Service % of Expenditures	Pension Bonds Debt Service % of Expenditures
2005	26,736	4.11%	1.86%
2006	27,982	4.12%	1.77%
2007	30,952	3.81%	1.60%
2008	32,405	3.66%	1.69%
2009	37,354	3.11%	1.46%
2010	33,882	3.35%	1.61%

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

**TABLE 13
RATIO OF GENERAL OBLIGATION DEBT
TO ILLINOIS PERSONAL INCOME
FISCAL YEARS 2005-2009**

Fiscal Year	Illinois Personal Income¹ (\$ In Billions)	Capital Improvement and Refunding Bonds % of Personal Income	Pension Bonds % of Personal Income
2005	463.1	2.14%	2.16%
2006	490.7	2.09%	2.04%
2007	526.0	1.89%	1.90%
2008	547.0	1.73%	1.82%
2009	541.0	1.67%	1.83%

¹ U.S. Department of Commerce, Bureau of Economic Analysis, January 2010.

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TABLE 14
GENERAL OBLIGATION DEBT PER CAPITA
FISCAL YEARS 2005- 2010

	2005	2006	2007	2008	2009	2010
Population (in Thousands) ¹	12,720	12,777	12,853	12,902	12,910	12,831
Capital Improvement and Refunding Bonds	\$778	\$802	\$772	\$733	\$701	\$849
Pension Bonds Debt per Capita ²	\$786	\$783	\$778	\$771	\$767	\$768

¹ U.S. Department of Commerce, Bureau of the Census, January 2011.

² Approximately 73% of the Pension Bond Debt per Capita is offset by corresponding unfunded pension liability per capita, which existed prior to the issuance of the pension bonds.

TABLE 15
RATIO OF GENERAL OBLIGATION DEBT TO EQUALIZED ASSESSED VALUATION¹
FISCAL YEARS 2005-2010

Equalized Assessed Value ("EAV")		Capital Improvement and Refunding Bonds		Pension Bonds	
Year	(\$ Millions)	(\$ Millions)	% of EAV	(\$ Millions)	% of EAV
2005	303,038	9,893.0	3.26	10,000.0	3.30
2006	331,337	10,251.1	3.09	10,000.0	3.02
2007	363,068	9,925.7	2.73	10,000.0	2.75
2008	387,021	9,462.9	2.45	9,950.0	2.57
2009	419,187	9,051.8	2.16	9,900.0	2.36
2010	454,026	10,893.9	2.40	13,316.0	2.93

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Table 16
MATURITY SCHEDULE - GENERAL OBLIGATION BONDS
Bond Issuances through March 10, 2011

General Obligation Capital Improvement and Special Purpose Bonds							General Obligation Pension Bonds			Total
Fiscal Year June 30	Special Purpose	Multiple Purpose	Refunding	Total Principal	Total Interest	Total Debt Service	Principal	Interest	Debt Service	Combined Total Debt Service
2011	246,095,000	442,451,202	222,608,829	911,155,031	642,309,206	1,553,464,237	743,200,000	601,177,049	1,344,377,049	2,897,841,286
2012	-	432,693,439	239,780,000	672,473,439	628,144,938	1,300,618,377	793,200,000	785,687,428	1,578,887,428	2,879,505,805
2013	-	373,390,751	304,460,000	677,850,751	584,312,794	1,262,163,545	793,200,000	767,750,716	1,560,950,716	2,823,114,261
2014	-	317,729,607	361,470,000	679,199,607	534,647,092	1,213,846,699	893,200,000	740,879,544	1,634,079,544	2,847,926,243
2015	-	366,375,720	333,025,000	699,400,720	482,331,115	1,181,731,835	1,093,200,000	704,683,372	1,797,883,372	2,979,615,207
2016	-	378,746,341	308,345,000	687,091,341	453,238,338	1,140,329,679	700,000,000	656,454,000	1,356,454,000	2,496,783,679
2017	-	377,986,341	281,300,000	659,286,341	416,215,783	1,075,502,124	1,025,000,000	622,338,000	1,647,338,000	2,722,840,124
2018	-	375,817,806	260,155,000	635,972,806	375,447,047	1,011,419,854	1,050,000,000	568,615,500	1,618,615,500	2,630,035,354
2019	-	396,542,317	205,770,000	602,312,317	343,384,485	945,696,802	1,075,000,000	511,105,500	1,586,105,500	2,531,802,302
2020	-	393,691,629	182,820,000	576,511,629	318,681,671	895,193,301	225,000,000	449,550,000	674,550,000	1,569,743,301
2021	-	382,210,883	178,160,000	560,370,883	284,571,897	844,942,780	275,000,000	438,412,500	713,412,500	1,558,355,280
2022	-	439,297,410	96,670,000	535,967,410	247,117,937	783,085,347	325,000,000	424,800,000	749,800,000	1,532,885,347
2023	-	448,932,922	78,800,000	527,732,922	224,761,913	752,494,835	375,000,000	408,712,500	783,712,500	1,536,207,335
2024	-	435,393,968	56,500,000	491,893,968	191,700,679	683,594,647	450,000,000	390,150,000	840,150,000	1,523,744,647
2025	-	418,428,835	5,855,000	424,283,835	170,116,434	594,400,268	525,000,000	367,200,000	892,200,000	1,486,600,268
2026	-	435,270,000	-	435,270,000	146,185,583	581,455,583	575,000,000	340,425,000	915,425,000	1,496,880,583
2027	-	424,185,000	-	424,185,000	124,360,167	548,545,167	625,000,000	311,100,000	936,100,000	1,484,645,167
2028	-	389,845,000	-	389,845,000	102,710,200	492,555,200	700,000,000	279,225,000	979,225,000	1,471,780,200
2029	-	358,610,000	-	358,610,000	81,588,433	440,198,433	775,000,000	243,525,000	1,018,525,000	1,458,723,433
2030	-	303,500,000	-	303,500,000	64,691,983	368,191,983	875,000,000	204,000,000	1,079,000,000	1,447,191,983
2031	-	259,455,000	-	259,455,000	50,199,567	309,654,567	975,000,000	159,375,000	1,134,375,000	1,444,029,567
2032	-	200,575,000	-	200,575,000	38,530,540	239,105,540	1,050,000,000	109,650,000	1,159,650,000	1,398,755,540
2033	-	199,865,000	-	199,865,000	28,742,147	228,607,147	1,100,000,000	56,100,000	1,156,100,000	1,384,707,147
2034	-	233,035,000	-	233,035,000	17,290,587	250,325,587	-	-	-	250,325,587
2035	-	146,240,000	-	146,240,000	7,451,060	153,691,060	-	-	-	153,691,060
2036	-	48,000,000	-	48,000,000	1,136,850	49,136,850	-	-	-	49,136,850
2037	-	-	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-	-	-
Total	246,095,000	8,978,269,170	3,115,718,829	12,340,082,999	6,559,868,446	18,899,951,445	17,016,000,000	10,140,916,109	27,156,916,109	46,056,867,554

General Obligation principal payments for Fiscal Year 2011, as of March 10, 2011:

09 Months	-	318,526,202	204,263,829	522,790,031	537,645,893	1,060,435,923	693,200,000	355,227,049	1,048,427,049	2,108,862,973
03 Months	246,095,000	123,925,000	18,345,000	388,365,000	104,663,313	493,028,313	50,000,000	245,950,000	295,950,000	788,978,313
FY 2011	246,095,000	442,451,202	222,608,829	911,155,031	642,309,206	1,553,464,237	743,200,000	601,177,049	1,344,377,049	2,897,841,286

REVENUE BONDS

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

TABLE 17
REVENUE BONDS
(ESTIMATED AS OF DECEMBER 31, 2010)

(\$ IN MILLIONS)

Revenue Bond Program	Bonds Outstanding
Build Illinois (Sales Tax Revenue Bonds)	\$2,336.1
Metropolitan Exposition and Auditorium Authorities - Civic Center Program	82.4
MPEA ¹ - Dedicated State Tax Revenue Bonds	18.0
MPEA ^{1,2} - McCormick Place Expansion Project and Refunding Bonds	2,486.0
Illinois Sports Facilities Authority	445.5
Illinois Certificates of Participation	20.4
Total	\$5,388.4

¹ Metropolitan Pier and Exposition Authority ("MPEA")

² Bonds outstanding include capital appreciation bonds expressed in the amount of original principal issuance.

BUILD ILLINOIS

The Build Illinois program funds initiatives in business development, infrastructure construction and replacement, education, and environmental protection. The Build Illinois Bonds are dedicated State tax revenue bonds. The current Build Illinois bond authorization is \$4,615.5 million. Public Act 93-839 amended the Build Illinois Bond Act, 30 ILCS 425 et. seq., to include restrictions similar to those contained in the Bond Act.

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

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

METROPOLITAN EXPOSITION AND AUDITORIUM AUTHORITIES—CIVIC CENTER PROGRAM

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

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

METROPOLITAN PIER AND EXPOSITION AUTHORITY—DEDICATED STATE TAX REVENUE BONDS

Legislation effective in July 1984 dedicated a revenue stream from a variety of State sources to provide financing for the North Building expansion of the McCormick Place complex in Chicago and to redeem outstanding Exposition Building Revenue Bonds. These bonds are secured primarily by revenues from State sales and hotel taxes. The Dedicated State Tax Revenue Bonds are special obligations of the Metropolitan Pier and Exposition Authority (“MPEA”); neither the full faith and credit nor the taxing power of the State, other than the specific dedicated taxes, is pledged to the payment of the principal or interest on the bonds. Debt service on the bonds is subject to annual appropriation.

METROPOLITAN PIER AND EXPOSITION AUTHORITY—EXPANSION PROJECT BONDS

MPEA is authorized to issue McCormick Place Expansion Project Bonds. These bonds are secured by locally imposed taxes including hotel/motel, restaurant, car rental and airport departure taxes. Surplus from the Illinois Sports Facilities Authority hotel tax also is pledged as security for the bonds. If revenues from the taxes imposed by MPEA are insufficient to pay debt service on the Expansion Project Bonds, remaining State sales tax revenues, following required deposits to the Build Illinois Fund, are pledged to meet the deficiency. Legislation adopted in May, 2010, increased the airport departure taxes which secure these bonds, extended the allocation of sales tax revenues to meet the deficiency on these bonds to 2060 and provided additional financial support from the State for operations of MPEA.

ILLINOIS SPORTS FACILITIES AUTHORITY

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

On October 12, 2001, ISFA issued \$399 million of revenue bonds to finance the Soldier Field Project (the “2001 ISFA Bonds”). The 1999 ISFA Bonds and the 2001 ISFA Bonds are payable, subject to appropriation, from (i) a \$10 million subsidy derived equally from State hotel tax revenues and amounts allocable to the City of Chicago under the State Revenue Sharing Act and (ii) an advance of State hotel tax revenues in the amount of \$23.425 million in Fiscal Year 2003, increasing by 5.615% each fiscal year thereafter, which advance is required to be repaid annually by receipts derived from a 2.0% hotel tax imposed by ISFA within the City of Chicago. In the event the ISFA tax is insufficient to repay the advance of State hotel tax revenues, the deficiency will be paid from additional amounts allocable to the City of Chicago under the State Revenue Sharing Act. The State expects that all amounts advanced as described in clause (ii) above will be repaid to the State.

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

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 has issued two series of certificates of participation for the acquisition of real property, \$21.0 million in October 1995 and \$17.7 million in May 1996. The proceeds of these certificates were used to finance the construction of correctional facilities. The certificates are payable from lease or installment purchase payments which are subject to annual appropriation and are not a full faith and credit obligation of the State.

OTHER OBLIGATIONS

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

The State has additional contingent liabilities in the form of Moral Obligation Bonds which provide for presentation of an appropriation request to the General Assembly for debt service deficiencies – see “MORAL OBLIGATION BONDS”, and a statutory Continuing Appropriation of General Funds for lump-sum payments in excess of available loan loss reserves for certain guaranteed loan programs – see “AGRICULTURAL LOAN GUARANTEE PROGRAM”.

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Table 18
MATURITY SCHEDULE -- REVENUE BONDS
(As of December 31, 2010)

Year Ending June 30	Build Illinois	MPEA D.S.T.R.B.	MPEA Expansion Project	Civic Center Program	Sports Facilities Authority	Illinois Certificates of Participation	Total Principal	Total Interest	Total Debt Service
2011	164,834,169	-	20,474,090	9,085,000	2,786,432	2,055,000	199,234,692	226,043,835	425,278,527
2012	164,143,399	4,145,000	28,182,186	9,555,000	3,787,861	2,170,000	211,983,446	257,723,055	469,706,501
2013	167,492,124	4,370,000	26,649,492	10,095,000	4,742,354	2,305,000	215,653,970	264,461,946	480,115,916
2014	175,019,306	4,600,000	16,709,911	10,705,000	5,649,695	2,440,000	215,123,912	249,397,357	464,521,269
2015	173,026,038	4,850,000	19,097,380	11,415,000	6,517,832	2,590,000	217,496,250	269,187,935	486,684,185
2016	174,080,000	-	26,871,956	12,020,000	7,363,337	2,750,000	223,085,293	268,509,504	491,594,797
2017	159,060,000	-	30,050,228	5,488,409	8,151,095	2,915,000	205,664,733	275,064,249	480,728,982
2018	144,300,000	-	28,912,243	5,668,835	6,355,418	3,140,000	188,376,496	283,083,505	471,460,001
2019	131,310,000	-	34,870,083	5,875,462	6,569,442	-	178,624,987	282,648,323	461,273,310
2020	115,265,000	-	41,714,453	6,103,026	6,977,726	-	170,060,206	282,964,908	453,025,114
2021	84,405,000	-	79,332,400	5,405,000	7,374,846	-	176,517,246	246,641,508	423,158,753
2022	94,865,000	-	53,878,012	-	7,767,537	-	156,510,549	283,078,004	439,588,554
2023	82,540,000	-	107,057,495	-	8,156,172	-	197,753,667	238,384,862	436,138,529
2024	75,280,000	-	45,216,436	-	8,543,953	-	129,040,388	298,906,653	427,947,041
2025	74,085,000	-	48,272,449	-	8,891,669	-	131,249,118	295,156,730	426,405,848
2026	72,160,000	-	55,469,129	-	14,950,731	-	142,579,860	264,649,907	407,229,768
2027	63,345,000	-	94,458,545	-	31,842,372	-	189,645,917	220,793,820	410,439,738
2028	57,240,000	-	126,032,687	-	36,240,797	-	219,513,485	206,364,133	425,877,618
2029	36,205,000	-	131,295,321	-	41,040,210	-	208,540,531	197,689,494	406,230,026
2030	33,080,000	-	10,277,690	-	52,405,825	-	95,763,515	344,479,335	440,242,850
2031	28,080,000	-	9,145,954	-	75,355,000	-	112,580,954	326,216,596	438,797,550
2032	22,080,000	-	8,140,997	-	84,295,000	-	114,515,997	322,026,878	436,542,875
2033	22,080,000	-	7,243,844	-	-	-	29,323,844	317,582,356	346,906,200
2034	22,080,000	-	6,447,732	-	-	-	28,527,732	317,251,543	345,779,275
2035	-	-	5,737,216	-	-	-	5,737,216	316,835,134	322,572,350
2036	-	-	5,107,150	-	-	-	5,107,150	317,465,200	322,572,350
2037	-	-	4,545,622	-	-	-	4,545,622	318,026,728	322,572,350
2038	-	-	4,043,951	-	-	-	4,043,951	318,528,399	322,572,350
2039	-	-	3,600,523	-	-	-	3,600,523	318,971,827	322,572,350
2040	-	-	3,202,467	-	-	-	3,202,467	319,369,883	322,572,350
2041	-	-	66,137,223	-	-	-	66,137,223	256,435,127	322,572,350
2042	-	-	265,360,000	-	-	-	265,360,000	57,216,413	322,576,413
2043	-	-	36,068,330	-	-	-	36,068,330	278,979,346	315,047,675
2044	-	-	33,701,220	-	-	-	33,701,220	281,346,455	315,047,675
2045	-	-	31,689,253	-	-	-	31,689,253	283,353,422	315,042,675
2046	-	-	29,798,833	-	-	-	29,798,833	285,248,842	315,047,675
2047	-	-	76,946,212	-	-	-	76,946,212	238,100,332	315,046,544
2048	-	-	273,730,000	-	-	-	273,730,000	41,314,378	315,044,378
2049	-	-	287,825,000	-	-	-	287,825,000	27,220,299	315,045,299
2050	-	-	302,750,000	-	-	-	302,750,000	12,185,294	314,935,294
Total	2,336,055,036	17,965,000	2,486,043,712	91,415,732	435,765,305	20,365,000	5,387,609,786	10,208,903,513	15,596,513,299

Note: Columns may not add due to rounding.

Total Interest in 2031 and thereafter is largely comprised of interest on capital appreciation bonds issued by MPEA.

MORAL OBLIGATION BONDS

Currently, eight entities in the State may issue moral obligation bonds. The moral obligation pledge generally provides that in the event the authority issuing moral obligation bonds determines that revenue available to the authority will be insufficient for the payment of principal and interest on such bonds during the next State fiscal period, the authority shall certify to the Governor the amount required to pay such principal and interest and any amounts withdrawn from bond reserve funds to pay principal and interest on moral obligation bonds. The Governor shall then submit the amounts so certified to the General Assembly. The Governor's recommendations for these and all other State appropriations are a matter of executive discretion. Thus, the moral obligation pledge does not constitute a legally enforceable obligation of the Governor to recommend a State appropriation. Moreover, the General Assembly is not statutorily required to make an appropriation for the amount so certified by the authority, nor must the Governor sign any such appropriation bill if passed by the General Assembly.

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

TABLE 19
MORAL OBLIGATION BOND AUTHORITIES' DEBT¹
ESTIMATED AS OF DECEMBER 31, 2010
(\$ IN MILLIONS)

Issuing Authority	Moral Obligation Bonds Outstanding
Southwestern Illinois Development Authority	\$ 31.6
Quad Cities Regional Economic Development Authority	-
Upper Illinois River Valley Development Authority	20.1
Tri-County River Valley Development Authority	-
Will-Kankakee Regional Development Authority	-
Illinois Finance Authority ²	275.1
Illinois Housing Development Authority	0.1
Total	\$326.9

¹ The amounts listed include only those bonds containing a moral obligation pledge.

² The Illinois Rural Bond Bank, Illinois Research Park Authority and the Illinois Development Finance Authority were consolidated into the Illinois Finance Authority (the "IFA"), which was created on March 1, 2004. Amount reflects outstanding Moral Obligations issued by the IFA and predecessor authorities.

From time to time, the State has received notices from certain entities which have issued Moral Obligation Bonds that insufficient monies are available for the payment of principal and interest on one or more series of Moral Obligation Bonds or that amounts withdrawn from bond reserve funds to pay principal and interest on Moral Obligation Bonds have not been replenished.

The State does not have a legal obligation to pay any such amounts and cannot predict whether appropriations for such amounts will be enacted. No assurance can be given that future requests for State appropriation will not be received by the State or that such requests will not be for material amounts. Further, no assurance can be given that an appropriation would be enacted with respect to such future request.

AGRICULTURAL LOAN GUARANTEE PROGRAM

The Illinois Finance Authority (the “IFA”, as successor to the Illinois Farm Development Authority), is authorized at 20 ILCS 3501 Article 830 *et seq.*, (the “Loan Program”), to issue up to \$235 million in guarantees for loans by financial institutions (“Secured Lenders”) to agriculture and agribusiness borrowers. Under the Program, Secured Lenders may receive a lump-sum payment up to a maximum of 85% of a remaining loan balance in the event of a default. The IFA currently maintains two reserve funds, (i) The Illinois Agricultural Loan Fund, and (ii) The Illinois Farmer & Agribusiness Loan Guarantee Fund (collectively, the “Reserve Funds”), from which default lump-sum payments may be made. As of October 31, 2008, the available balances in the Reserve Funds held by the IFA were \$10.7 million and \$7.7 million, respectively.

These Reserve Funds are further backed by a “continuing appropriation” of the State’s General Funds as a full faith and credit general obligation of the State. As of October 31, 2008, the IFA Loan Programs secure: (i) \$25.5 million in Illinois Agricultural Loans and (ii) \$58.7 million in Illinois Farmer & Agribusiness Loans. In total, 85% of these two Loan Programs or \$70.3 million is guaranteed by the State. To date, there has not been a required transfer from the State’s General Funds for default lump-sum payments under the Loan Program.

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

In November 2006, the IFA extended a \$15 million State guarantee to a \$24.5 million loan by Fifth Third Bank (the “Secured Lender”) to Bio-fuels Company of America (the “Borrower”), to construct, own and operate a 45 million gallon per year bio-diesel fuel plant located in Danville, Illinois. The Borrower has entered a guaranteed supply agreement and 20% equity partnership with Bunge North America, to provide soy bean oil, a principal commodity required for production of bio-diesel fuel.

ILLINOIS STUDENT ASSISTANCE COMMISSION STATE GUARANTEE

Pursuant to authority granted under the provisions of Section 152 of the Higher Education Student Assistance Act, approved and effective May 7, 2009 (the “Guarantee Legislation”), the Illinois Student Assistance Commission (“ISAC”) has designated its Student Loan Revenue Bonds, Series 2009 (State Guaranteed) as guaranteed by the State (the “Guaranteed Bonds”). The Guaranteed Bonds were issued in late May, 2009 in the aggregate principal amount of \$50,000,000. The State’s guarantee constitutes a general obligation of the State and the full faith, credit and resources of the State are irrevocably pledged to the punctual payment of the principal of and interest on the Guaranteed Bonds as the same becomes due, whether at maturity or upon redemption. The guarantee of the State is limited to bonds so designated by ISAC in an aggregate principal amount of not greater than \$50,000,000.

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PENSION SYSTEMS

GENERAL

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

With one exception, the Retirement Systems are defined-benefit pension plans. In a defined-benefit pension plan, a periodic (usually monthly) benefit is paid to retired employees in a fixed amount determined at the time of retirement. The amount of the periodic benefit is generally determined on the basis of service credits and salary. The benefit is payable to the retiree for life and, if applicable, a survivor's benefit is provided to the designated beneficiary of the retiree.

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

For SERS, GARS and JRS, the State is the sole employer contributing to the Retirement Systems. For TRS, the individual school districts (which employ the majority of TRS members), special districts and State agencies employing TRS members also contribute. For SURS, State contributions, combined with trust and federal funds, serve as the employer contribution.

Section 5 of Article XIII of the Illinois Constitution provides that "[m]embership in any pension retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired." The benefits available under the Retirement Systems accrue throughout the time a member is employed by the State. Although the benefits accrue during employment, certain age and service requirements must be achieved for an employee to receive a retirement or survivor's annuity upon retirement or termination from an employer participating in the Retirement Systems.

State contributions to the Retirement Systems are made following appropriation by the General Assembly. Each Retirement System is required to certify to the State the amount necessary to pay the Required Annual Statutory Contribution (as defined below) by November 15 of the current fiscal year for inclusion in the Governor's budget for the following fiscal year. In the event that the General Assembly fails to appropriate the amount certified by the Retirement Systems, the Pension Code requires that payments are to be made by the State Comptroller and the State Treasurer to the Retirement Systems in amounts sufficient to meet the requirements of the Statutory Funding Plan (as defined below) (the "Continuing Appropriation"). See "DETERMINATION OF EMPLOYER CONTRIBUTIONS" herein. Despite the Continuing Appropriation, the possibility still exists that the Retirement Systems will not receive the required contribution in a timely manner in each year because there could be insufficient funds available in the State's General Revenue Fund. 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. If the full amount of Required Annual Statutory Contributions is not paid in a timely manner, the Retirement Systems may be required to sell assets to pay benefits as they become due. For a description of the Statutory Funding Plan, the instances in which the Retirement Systems have not been fully funded, and the effect of a sale of

the Retirement Systems' assets to pay benefits, see "HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS" below.

BACKGROUND INFORMATION REGARDING THE RETIREMENT SYSTEMS

The State is obligated to make contributions to the Retirement Systems as set forth in the Pension Code. See "ACTUARIAL METHODS—Actuarial Accrued Liability" herein. In addition, the Retirement Systems' members make annual contributions to the Retirement Systems from their salaries. For more information on the amount of contributions made by the State and Retirement System members in each of fiscal years 2006 through 2010, see Tables 25 through 29.

Except as discussed under "RECENT REPORTS REGARDING THE RETIREMENT SYSTEMS," the information contained herein relies on information produced by the Retirement Systems, their independent accountants and their independent actuaries (the "Source Information"). The information presented herein is presented on the basis of the Source Information. The State has not independently verified the Source Information and makes no representations nor expresses any opinion as to the accuracy of the Source Information.

Furthermore, where the tables in this disclosure present aggregate information regarding the Retirement Systems, specifically in Tables 24-34, such combined information results solely from the arithmetic calculation of numbers presented in the Source Information and may not conform to the requirements for the presentation of such information as may be required by GASB or the Statutory Funding Plan.

The comprehensive annual financial reports of the Retirement Systems for the fiscal year ending June 30, 2009, and the Actuarial Valuations of the Retirement Systems for the fiscal year ending June 30, 2010, are hereby incorporated by reference. These documents may be obtained by contacting the Retirement Systems. The majority of these reports are also available on the respective websites of each Retirement System.

The *Teachers' Retirement System*, TRS, is a cost-sharing, multiple-employer, public employee defined-benefit pension plan. TRS provides coverage to teachers employed by public school districts in the State (excluding Chicago). Most of TRS's covered employees are not employees of the State. TRS receives contributions from 867 local school districts, 140 special districts and 23 other State agencies. Individual school districts contribute at a minimal level. As of June 30, 2010, TRS had a total membership of 378,827, consisting of 169,173 active members, 111,858 inactive members entitled to benefits but not yet receiving them, and 97,796 retirees and beneficiaries currently receiving benefits. Members contribute 9.4% of their salary to TRS. However, a member may receive a refund of 0.4% if such member does not utilize the early retirement option provided by TRS.

The *State Universities Retirement System*, SURS, is a cost-sharing, multiple-employer, public employee defined-benefit pension plan. SURS provides coverage to faculty and staff of State universities, community colleges and related agencies, of which some covered employees are not State employees. SURS draws contributions from employees of nine universities, 39 community college districts and 15 other State agencies. As of June 30, 2010, SURS had a total membership of 212,083, consisting of 82,742 active members (of which 9,746 are in the Self Managed Plan, as defined below), 80,438 inactive members entitled to benefits but not yet receiving them (of which 8,568 are in the Self Managed Plan), and 48,903 retirees and beneficiaries currently receiving benefits. Members contribute either 8.0% or 9.5% of their salary depending on the benefits package applicable to them.

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

Therefore, because the State's obligation to make contributions to the Self-Managed Plan does not extend beyond the requirement to make current payroll, the Self-Managed Plan is fully funded by definition.

The *State Employees' Retirement System*, SERS, is a single-employer, public employee defined-benefit pension plan. SERS membership is automatic for most State employees not eligible for another State-sponsored retirement plan. In addition, employees appointed by the Governor and requiring confirmation by the State Senate may elect to become members of SERS. As of June 30, 2010, SERS had a total membership of 143,319, consisting of 64,143 active members, 20,512 inactive members entitled to benefits but not yet receiving them, and 58,664 retirees and beneficiaries currently receiving benefits. SERS members contribute a specified percentage of their salaries which varies between 4% and 12.5% depending on the applicability of federal Social Security benefits to the member and the member's eligibility for an alternative benefits formula as provided by the Pension Code.

The *Judges' Retirement System*, JRS, is a single-employer, public employee defined-benefit pension plan that covers judges, associate judges and, under certain conditions, the administrative director of the State courts. Participation by judges is mandatory unless a judge makes an election not to participate within 30 days of receipt of notice of the option not to participate. As of June 30, 2010, JRS had a total membership of 1,985, consisting of 966 active members, 20 inactive members entitled to benefits but not yet receiving them, and 999 retirees and beneficiaries currently receiving benefits. The Pension Code establishes the JRS total contribution rate at 11.0% of salary, consisting of 7.5% for the retirement annuity, 2.5% for the survivors' annuity, and 1.0% for automatic annual increases. A JRS member may elect not to contribute to the survivor's annuity and forego such benefit.

The *General Assembly Retirement System*, GARS, is a single-employer, public employee defined-benefit pension plan that covers members of the General Assembly, State Constitutional Officers and the Clerks and Assistant Clerks of the respective Houses of the General Assembly. Participation in GARS is optional. As of June 30, 2010, GARS had a total membership of 653, consisting of 182 active members, 73 inactive members entitled to benefits but not yet receiving them, and 398 retirees and beneficiaries currently receiving benefits. The Pension Code establishes the GARS total contribution rate at 11.5% of salary, which consists of 8.5% for the retirement annuity, 2.0% for the survivors' annuity, and 1.0% for automatic annual increases. In certain circumstances, a GARS member may elect not to contribute to the survivor's annuity and forego such benefit.

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

State law regulates the types of investments in which the Retirement Systems' assets may be invested. The respective boards of trustees of TRS and SURS manage the investments of such Retirement Systems. The Illinois State Board of Investment manages the investment function 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.

As of June 30, 2010, the membership in each of the Retirement Systems and the required membership contributions as a percentage of member salary were as follows:

TABLE 20 - MEMBERSHIP AND MEMBER CONTRIBUTIONS

RETIREMENT SYSTEM	ACTIVE MEMBERS	INACTIVE/ ENTITLED TO BENEFITS	RETIREES AND BENEFICIARIES	TOTALS	MEMBER CONTRIBUTION ⁽¹⁾
TRS	169,173	111,858	97,796	378,827	9.4%
SURS	82,742	80,438	48,903	212,083	8.0% - 9.5%
SERS	64,143	20,512	58,664	143,319	4.0% - 12.5% ⁽²⁾
JRS	966	20	999	1,985	11.0%
GARS	<u>182</u>	<u>73</u>	<u>398</u>	<u>653</u>	11.5%
TOTAL	317,206	212,901	206,760	736,867	

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2010.

- (1) Represents the percentage of salary a member is required to contribute annually to the respective Retirement System under the Pension Code.
- (2) 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.

DETERMINATION OF EMPLOYER CONTRIBUTIONS

Actuaries and the Actuarial Process

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

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

The Actuarial Valuation must be accompanied by a statement from the actuary 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 established by the Governmental Accounting Standards Board (“GASB”). Although the Actuarial Valuation is prepared in accordance with generally accepted actuarial principles and practices, the Required Annual Statutory Contribution is computed in accordance with the Pension Code and, more specifically, the Statutory Funding Plan. As the Statutory Funding Plan does not conform with GASB, the Required Annual Statutory Contribution certified to the State by the actuary in the Actuarial Valuation differs from the Actuarially Required Contribution,¹ as defined below, that would be required under GASB. The differences between GASB’s requirements and the State’s statutory requirements are discussed in “ACTUARIAL METHODS—Actuarial Accrued Liability” below.

¹ GASB pronouncements refer to this concept as the Annual Required Contribution. For the convenience of the reader, this disclosure refers to the concept as the Actuarially Required Contribution to differentiate it from the concept of the Required Annual Statutory Contribution and to denote the fact that the Actuarially Required Contribution is the amount an actuary would require the State to contribute in a given year, as opposed to the amount the State will be required to contribute under applicable law.

The Actuarial Valuation

The primary purpose of the Actuarial Valuation is to determine the amount the State must contribute to each Retirement System in a given fiscal year to satisfy its current and future obligations to pay benefits to eligible members of the Retirement Systems as provided in the Pension Code (the “Required Annual Statutory Contribution”). To determine the Required Annual Statutory Contribution, the actuary calculates both the “Actuarial Accrued Liability” and the “Actuarial Value of Assets.” The Actuarial Accrued Liability is an estimate of the present value of the benefits each Retirement System must pay to current and retired employees as a result of their employment and participation in the Retirement System. The Actuarial Accrued Liability is calculated by use of a variety of demographic and other data (such as employee age, salary and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, mortality and disability rates). The Actuarial Value of Assets reflects the value of the investments and other assets held by the Retirement System. Various methods exist for calculating the Actuarial Value of Assets. For a discussion of these methods and assumptions used to 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 benefits earned to date that are not covered by plan assets. In addition, the actuary will compute the “Funded Ratio,” which is the result obtained by dividing the Actuarial Value of Assets by the Actuarial Accrued Liability. The Funded Ratio and the UAAL are used to measure the financial health of a pension plan. An increasing UAAL or a decreasing Funded Ratio from year to year signals a deterioration in the financial health of a pension plan because it indicates the incurrence of additional liability without a corresponding increase in assets necessary to pay those additional liabilities. Conversely, a decreasing UAAL or an increasing Funded Ratio indicates an improvement in the financial health of a pension plan because such a change reflects a closing gap between the liabilities accrued by the pension plan and the assets necessary to pay those liabilities when they become due.

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 the level percent of payroll necessary to allow the Retirement Systems to achieve a 90% Funded Ratio by fiscal year 2045.

Statutory Funding Plan not in Accordance with GASB 25

The method of amortizing the UAAL used by the Statutory Funding Plan does not conform with the requirements of GASB 25 regarding financial reporting for defined-benefit pension plans, as more fully described below. As a result, the Required Annual Statutory Contribution determined by the Retirement Systems’ actuaries, while in conformity with State law, is less than the contribution that would otherwise be determined in accordance with GASB standards (the “Actuarially Required Contribution”). The Actuarially Required Contribution consists of two components: (1) the portion of the present value of retirement benefits that are allocable to active members’ current year of service, termed the “Normal Cost,” and (2) an amortized portion of the UAAL sufficient to eliminate the UAAL over a period of time (as described in “ACTUARIAL METHODS—Actuarial Accrued Liability” below). As discussed above, the Statutory Funding Plan requires the determination of the Required Annual Statutory Contribution by calculation of the level percent of payroll necessary to reach a 90% Funded Ratio by fiscal year 2045 and does not require elimination of the entire UAAL. See “ACTUARIAL METHODS—Actuarial Accrued Liability” below for a discussion of the differences between the Statutory Funding Plan and GASB 25.

ACTUARIAL METHODS

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

Actuarial Value of Assets

The Actuarial Value of Assets measures the value of the assets available in the pension plan to pay benefits. Beginning with fiscal year 2009, the State recognizes 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 realized in each of the previous five years. State law provides for application of the Asset Smoothing Method prospectively, beginning with fiscal year 2009. The Asset Smoothing Method, which is an approved method for determining the Actuarial Value of Assets under GASB 25, prevents extreme fluctuations in the Actuarial Value of Assets, the UAAL and the Funded Ratio that may otherwise occur as a result of market volatility. Asset smoothing delays recognition of gains and losses, however, thereby providing an Actuarial Value of Assets that does not reflect the true value of pension plan assets at the time of measurement. As a result, presenting the Actuarial Value of Assets as determined under the Asset Smoothing Method might provide a more or less favorable presentation of the current financial position of a pension plan than would a method that recognizes investment gains and losses annually.

On June 16, 2010, GASB released a statement seeking comment on proposed changes to its public pension accounting standards. Among other significant changes to pension accounting, these proposed changes would restrict usage of the Asset Smoothing Method for accounting purposes. The use of the Asset Smoothing Method is mandated in Illinois by the Pension Code. Consequently, the adoption of GASB’s proposed changes would not affect the calculation of the Actuarial Value of Assets, but would constitute an additional departure from the methods required by GASB 25, as discussed in “ACTUARIAL METHODS—Actuarial Accrued Liability” below.

Prior to fiscal year 2009, the State valued assets at fair value, recognizing all investment gains and losses as they occurred. For fiscal year 2009, adoption of the Asset Smoothing Method had the effect of minimizing the investment losses suffered by the Retirement Systems as a result of the 2008-2009 market downturn. Although the fair value of the Retirement Systems’ assets declined by 24.78% during fiscal year 2009, the Retirement Systems, through application of the Asset Smoothing Method, suffered only a 1.09% reduction in the value of their assets. Furthermore, the Retirement Systems’ Funded Ratio would have decreased to 38.5% if assets were measured at fair value. Through the application of the Asset Smoothing Method, however, the Retirement Systems’ Funded Ratio for fiscal year 2009 was 50.6%.

Actuarial Accrued Liability

In addition to establishing the manner of measuring the Actuarial Value of Assets, the Pension Code mandates the use of the Statutory Funding Plan in calculating the Required Annual Statutory Contribution. The provisions of the Statutory Funding Plan differ from those generally accepted accounting principles established in GASB 25 in four significant respects. First, the goal of the Statutory Funding Plan is to amortize the portion of the UAAL necessary to allow the Retirement Systems’ Funded Ratio to reach 90% by 2045 whereas GASB 25 requires amortization of the entire UAAL. Second, the Statutory Funding Plan allowed the State to contribute less than the level percent of payroll necessary to reach the desired funding level for the first 15 years of the Statutory Funding Plan (the “ramp-up” period discussed below, which ended at the conclusion of fiscal year 2010). In contrast, GASB 25 does not permit a ramp-up to full contributions. Third, GASB 25 requires amortization of the UAAL over a 30-year period. Conversely, the Statutory Funding Plan amortizes the amount of the remaining UAAL necessary to reach a 90% Funded Ratio over a 35-year period (for fiscal year 2011).

Finally, whereas GASB 25 permits amortization of the UAAL over an open amortization period, the Statutory Funding Plan requires amortization of the UAAL over a closed period ending in 2045. A closed amortization period means that the UAAL is amortized over a fixed number of years such that the UAAL will decrease to a legally defined target (which, for the State, is a 90% Funded Ratio by 2045 in accordance with the Statutory Funding Plan) upon the passage of the amount of time established as the amortization period, provided required payments are made. For example, under the Statutory Funding Plan, the Required Annual Statutory Contribution for fiscal year 2011 will be calculated by using a 35-year amortization period, while the Required Annual Statutory Contribution for fiscal year 2012 will be calculated using a 34-year amortization period. Conversely, an open amortization period has no term limit and is therefore recalculated over a new 30-year period each time a valuation is performed in accordance with GASB 25. Amortizing through use of a closed period will have the effect of decreasing the UAAL at a greater rate and will allow the State to reach its funding target by fiscal year 2045, *provided* that all required contributions are made. Under an open amortization period, although the UAAL would decrease in each year, the amount of time necessary to fully amortize the UAAL would be far longer because the amount amortized would decrease in each year.

These four differences between GASB 25 and the Statutory Funding Plan account for the variation between the Required Annual Statutory Contribution and the Actuarially Required Contribution. See “FUNDED STATUS” herein.

ACTUARIAL ASSUMPTIONS

General

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

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TABLE 21 - CERTAIN ACTUARIAL ASSUMPTIONS USED BY THE RETIREMENT SYSTEMS

	TRS	SURS	SERS	GARS	JRS
	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Actuarial Cost Method ⁽¹⁾	Credit	Credit	Credit	Credit	Credit
Investment Rate of Return ⁽²⁾	8.50%	7.75%	7.75%	8.00%	7.00%
Assumed Inflation Rate	3.50%	3.75%	3.00%	4.00%	4.00%
Post-Retirement Increase	3.00%	3.00%	3.00%	3.00%	3.00%
Projected Salary Increases	7.00% ⁽³⁾	5.0% to 10.0% ⁽⁴⁾	4.00% to 8.35% ⁽⁵⁾	5.00% ⁽⁶⁾	5.00% ⁽⁶⁾

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2010.

- (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) Beginning with the fiscal year ending June 30, 2010, SURS, SERS and JRS reduced their assumed investment rate of return to the rates displayed in Table 21. Prior to fiscal year 2010, SURS and SERS assumed 8.50% investment rates of return and JRS assumed an 8.00% investment rate of return.
- (3) Represents a composite of projected salary increases which vary between 6.0% (at age 60) and 11.1% (at age 20). Includes inflation (3.50%) and real wage growth (1.20%) assumptions.
- (4) Each member's compensation is assumed to increase by 5.00% each year, 3.75% reflecting salary inflation and 1.25% reflecting standard of living increases. For members with less than nine years of service, an additional projected salary increase factor is added to the assumed rate. This additional factor applies to members on a sliding scale, starting at 5.0% for members in their initial service year (which creates a total projected salary increase of 10.0%) and decreasing to 0.3% for members in their eighth service year.
- (5) Rates depend on member age.
- (6) Includes inflation component of 4.0% and a seniority/merit component of 1.0%.

The Pension Code requires each of the Retirement Systems to conduct an actuarial experience review every five years. The purpose of the experience review is to determine the adequacy of the actuarial assumptions regarding mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the Retirement Systems. Based upon the results of this review, the board of the applicable Retirement System may adopt such actuarial assumptions as it deems appropriate.

Assumed Investment Rate of Return

The Actuarial Valuations assume an investment rate of return on the assets in each Retirement System. For the fiscal year ending June 30, 2009, each Retirement System assumed an investment rate of return of either 8.00% or 8.50%. SURS and SERS reduced their assumed investment rate 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. These reductions will have the effect of increasing the UAAL and the Required Annual Statutory Contribution because the Retirement Systems now assume that plan assets will produce less income to pay projected benefits. Due to the volatility of the marketplace, however, the actual rate of return earned by the Retirement Systems on their assets may be higher or lower than the assumed rate. See Table 22 for the rates of return on the Retirement Systems' assets for the last five 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 gain or loss spread over the remaining four years. See "ACTUARIAL METHODS—*Actuarial Value of Assets*" above.

Adverse market conditions resulted in negative investment returns on the Retirement Systems' assets in fiscal years 2008 and 2009, resulting in a significant reduction in the Funded Ratio and a corresponding increase in the UAAL. No assurance can be given that these negative trends in investment performance will not continue into the current or future fiscal years, leading to a continued increase in the UAAL.

TABLE 22 - INVESTMENT RATES OF RETURN, 2006-2010

	TRS	SURS	SERS	GARS	JRS
2006	11.8%	11.7%	11.0%	11.0%	11.0%
2007	19.2%	18.3%	17.1%	17.1%	17.1%
2008	(5.0%)	(4.5%)	(6.2%)	(6.2%)	(6.2%)
2009	(22.7%)	(19.7%)	(20.1%)	(20.1%)	(20.1%)
2010	12.9%	15.0%	9.2%	9.2%	9.2%
5-YR. AVG. RETURN	2.0%	4.2%	2.2%	2.2%	2.2%
10-YR AVG. RETURN	3.3%	3.6%	2.4%	2.4%	2.4%
ASSUMED RATE	8.5%	8.5% ⁽¹⁾	8.5% ⁽¹⁾	8.0%	8.0% ⁽²⁾

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal year ended June 30, 2009. Comprehensive Annual Financial Report of TRS for the fiscal year ended June 30, 2010. Certain information was provided by the Retirement Systems.

- (1) Beginning with the fiscal year ending June 30, 2010, SURS and SERS have reduced their assumed rate of return to 7.75%.
(2) Beginning with the fiscal year ending June 30, 2010, JRS has reduced its assumed rate of return to 7.00%

HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS

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

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

The Statutory Funding Plan consists of two parts: (i) a ramp-up period of increasing State contributions as a percentage of payroll in each of the fiscal years 1996 to 2010 and (ii) a period of contributions equal to the 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. During the ramp-up period, the Statutory Funding Plan required that the percentage of payroll contributed by the State increase by an equal amount in each year such that by fiscal year 2010 the contribution percentage of payroll was equal to the same percentage of payroll required to be contributed for years 2011 through 2045.

The State made the Required Annual Statutory Contribution for each of the fiscal years 1996 through 2002. Because these contributions were made during the ramp-up period and because the Statutory Funding Plan did not comply with GASB 25, these contributions were not sufficient to cover the full Actuarially Required Contributions for such fiscal years. As a result, the UAAL continued to grow during the ramp-up period. See “ACTUARIAL METHODS—Actuarial Accrued Liability” above.

On June 12, 2003, the State issued \$10 billion of general obligation pension funding bonds (the “2003 Pension Bonds”) pursuant to authority granted by the General Assembly in Public Act 93-0002 (the “2003 Pension Bond Act”). The net proceeds of the 2003 Pension Bonds were used to (i) reimburse the State’s General Revenue Fund for \$300 million of the Required Annual Statutory Contribution made for fiscal year 2003, (ii) provide funding to the State’s General Revenue Fund for the full fiscal year 2004 Required Annual Statutory Contribution in the amount of \$1.86 billion and (iii) fund a portion of the UAAL in the amount of \$7.3 billion. As a result, the State funded approximately 25% of its fiscal year 2003 Required Annual Statutory Contribution and all of its fiscal year 2004 Required Annual Statutory

Contribution from the proceeds of the 2003 Pension Bonds and not from the General Revenue Fund. The 2003 Pension Bond Act also provided that the State's Required Annual Statutory Contributions be reduced in each fiscal year, beginning in fiscal year 2005, by the State's debt service payments on the 2003 Pension Bonds, allocated among the Retirement Systems. See Table 23 below for a schedule of the 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. The reduction of future Required Annual Statutory Contributions by the debt service payments on the 2003 Pension Bonds has the effect of increasing the UAAL, however, because the State will 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. In actuality, the significant investment losses experienced by the Retirement Systems in fiscal years 2008 and 2009, when combined with the reduction in the Required Annual Statutory Contributions by the debt service payments on the 2003 Pension Bonds, created an even greater increase in the UAAL in those years. No assurance can be given that these negative investment trends or legislation affecting the Statutory Funding Plan will not occur in the future, causing a further increase in the UAAL.

TABLE 23 - DEBT SERVICE ON 2003 PENSION BONDS⁽¹⁾

FISCAL YEAR	DEBT SERVICE DUE ON 2003 PENSION BONDS
2010	\$ 543.6
2011	541.9
2012	590.1
2013	586.4
2014	582.5
2015	578.6
2016	574.5
2017	595.2
2018	614.7
2019	633.2
2020	674.6
2021	713.4
2022	749.8
2023	783.7
2024	840.2
2025	892.2
2026	915.4
2027	936.1
2028	979.2
2029	1,018.5
2030	1,079.0
2031	1,134.4
2032	1,159.7
2033	1,156.1

(1) In millions of dollars.

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

State contributions to the Retirement Systems for fiscal years 2006 and 2007 were governed by the provisions of Public Act 94-0004 (“P.A. 94-4”). P.A. 94-4 modified the Statutory Funding Plan to specify reduced Required Annual Statutory Contributions for these two fiscal years (the “Pension Holidays”). The 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 \$2.1172 billion in fiscal year 2006 and \$2.5078 billion in fiscal year 2007. The Pension Holidays reduced these contributions to \$0.9384 billion and \$1.3723 billion, respectively, which represented reductions of 55.67% and 45.28%, respectively. The contribution reductions required by the Pension Holidays had the dual effect of increasing the UAAL and delaying payment of the deferred portion of the contribution to a future fiscal year.

The State made the full Required Annual Statutory Contributions for fiscal years 2008 and 2009. As previously described, however, these contributions were reduced by the amount of debt service due in each fiscal year on the 2003 Pension Bonds. The UAAL increased despite the State making the Required Annual Statutory Contributions under the Statutory Funding Plan because such contributions were lower than the Actuarially Required Contributions, as permitted by the Statutory Funding Plan, and as a result of poor investment performance.

With respect to the State’s contribution to the Retirement Systems for fiscal year 2010, the General Assembly enacted Public Act 96-0043 (the “2010 Pension Bond Act”), which set the State contribution for fiscal year 2010 at \$3.6048 billion. On January 7, 2010, the State issued \$3.466 billion of general obligation pension funding bonds (the “2010 Pension Bonds”) to fund a portion of the fiscal year 2010 Required Annual Statutory Contribution. The remainder of the contribution for fiscal year 2010 was made from the State’s General Revenue Fund. The 2010 Pension Bond Act does not provide that the Required Annual Statutory Contribution be reduced by the debt service payments on the 2010 Pension Bonds. In fiscal year 2010, the UAAL increased even though the State made the Required Annual Statutory Contribution, because such contribution was lower than the Actuarially Required Contribution.

The State has not made its monthly payments to the Retirement Systems on a timely basis during fiscal year 2011. In the past, the Retirement Systems have sold assets to pay benefits as a result of the deficit between the contributions actually received (plus investment returns earned) by the Retirement Systems and their annual expenditures, including benefit payments. The failure of the State to make its payments to the Retirement Systems on a timely basis during fiscal year 2011 has exacerbated the pace at which the Retirement Systems have been required to sell assets to meet benefit payment requirements. If these sold assets are not replaced, the Actuarial Value of Assets will decrease and the UAAL will increase because the Retirement Systems will no longer have those assets, or the investment earnings on those assets, to pay benefits in the future.

P.A. 96-1497 authorizes the issuance of approximately \$4.096 billion of general obligation bonds to fund a portion of the Required Annual Statutory Contribution for fiscal year 2011. The State is using such authority to issue the Bonds. See “PLAN OF FINANCE” above. If the Required Annual Statutory Contribution for fiscal year 2011 exceeds the proceeds received from the issuance of these bonds, the remainder of the Required Statutory Annual Contribution is expected to be made from the General Revenue Fund. No assurance can be given that such contributions from the General Revenue Fund will be made. P.A. 96-1497 does not provide that the Required Annual Statutory Contribution be reduced by the debt service payments on the Bonds.

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 payment of revenues collected thereunder to the Retirement Systems by the State or the issuance of additional pension obligation bonds. No assurances can be given that the State will have the revenues necessary to fund the Retirement Systems from continuing operations, that payments from revenues will be made to the Retirement Systems or that such bonds will be issued. See “STATE FINANCIAL INFORMATION – SELECT RECENT LEGISLATIVE DEVELOPMENTS” above. If the State for any reason does not contribute the Required Annual Statutory Contribution in fiscal year 2011 and in future years, the UAAL will increase, the Funded Ratio will decrease and it is unlikely that the State will be able to achieve a 90% Funded Ratio by the end of fiscal year 2045. 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, modify the amount required to be contributed in any given year.

Table 24 shows the State’s Actuarially Required Contributions along with the percentage of those contributions actually made in each of 2006 through 2010.

TABLE 24 - HISTORY OF STATE CONTRIBUTIONS⁽¹⁾

	AMOUNT CONTRIBUTED	ACTUARIALLY REQUIRED CONTRIBUTION PER GASB 25 ⁽²⁾	PERCENTAGE CONTRIBUTED
2006	\$1,022.7	\$ 3,085.6	33.1%
2007	1,479.4	3,665.6	40.4%
2008	2,145.0	3,729.2	57.5%
2009	2,891.9	4,076.4	70.9%
2010	4,130.9	4,786.8	86.3%

Sources: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2010. Comprehensive Annual Financial Reports of SERS, SURS, JRS and GARS for the fiscal year ended June 30, 2009. Comprehensive Annual Financial Report of TRS for the fiscal year ended June 30, 2010.

(1) In millions of dollars.

(2) The State made the full Required Annual Statutory Contribution in each year.

FUNDED STATUS

As of the end of fiscal year 2010, the Retirement Systems had an aggregate UAAL of approximately \$85.569 billion on a fair value basis and \$75.741 billion on an actuarial basis (using the Asset Smoothing Method). The respective Funded Ratios for these UAALs are 38.3% and 45.4%. The UAAL increased between the end of fiscal year 2009 and the end of fiscal year 2010 primarily as a result of insufficient State contributions, as compared to the Actuarially Required Contribution. The following tables summarize the current financial condition and the funding progress of the Retirement Systems.

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TABLE 25
FINANCIAL CONDITION OF THE STATE RETIREMENT SYSTEMS
FISCAL YEAR 2010
(\$ IN THOUSANDS)

FISCAL YEAR	SERS	TRS	SURS	GARS	JRS	TOTAL	SELF MANAGED PLAN OF SURS ⁽¹⁾
Beginning Net Assets ⁽²⁾	\$ 8,477,852	\$28,497,729	\$11,032,973	\$ 55,092	\$ 478,876	\$ 48,542,522	\$573,595
Income							
Member Contributions	\$ 246,173	\$ 899,401	\$ 275,000	\$ 1,681	\$ 16,002	\$ 1,438,256	\$ 43,117
State and Employer Contributions	1,095,546	2,252,150	696,595	10,411	78,510	4,133,212	48,571
Investment Income	<u>799,896</u>	<u>3,679,643</u>	<u>1,653,853</u>	<u>4,771</u>	<u>42,532</u>	<u>6,180,695</u>	<u>71,482</u>
Total	2,141,615	6,831,194	2,625,448	16,862	137,044	11,752,163	163,169
Expenditures							
Benefits and Refunds	\$ 1,405,915	\$ 3,988,188	\$ 1,524,771	Not Available ⁽³⁾	Not Available ⁽³⁾	Not Available ⁽³⁾	\$ 16,437
Administration	<u>11,721</u>	<u>16,951</u>	<u>12,108</u>	<u>Not Available⁽³⁾</u>	<u>Not Available⁽³⁾</u>	<u>Not Available⁽³⁾</u>	<u>347</u>
Total	\$ 1,417,636	\$ 4,005,139	\$ 1,536,879	\$ 17,263	\$ 92,644	\$ 7,069,561	\$ 16,785
Ending Net Assets (Fair value)	\$ 9,201,831	\$31,323,784	\$12,121,542	\$ 54,691	\$ 523,276	\$ 53,225,124	\$719,980
Actuarial Value of Assets	10,961,540	37,439,092	13,966,643	66,212	619,926	63,053,413	N/A
Actuarial Accrued Liabilities	29,309,464	77,293,198	30,120,427	251,765	1,819,448	138,794,302	N/A
UAAL (Fair Value)	20,107,634	45,969,414	17,998,885	197,074	1,296,172	85,569,178	N/A
UAAL (Actuarial Value) ⁽⁴⁾	18,347,924	39,854,106	16,153,784	185,553	1,199,522	75,740,889	N/A
Funded Ratio (Fair Value)	31.4%	40.5%	40.2%	21.7%	28.8%	38.3%	N/A
Funded Ratio (Actuarial Value) ⁽⁴⁾	37.4%	48.4%	46.4%	26.3%	34.1%	45.4%	N/A

Source: Actuarial Valuations of the Retirement Systems as of June 30, 2010, and the Comprehensive Annual Financial Report of TRS 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" above.
- (2) Reflects valuation of assets on a fair value basis as of June 30, 2009, per GASB Statement 25.
- (3) Breakdown of expenditures is not available for GARS and JRS.
- (4) The actuarial value is determined by application of the Asset Smoothing Method as discussed in "ACTUARIAL METHODS—Actuarial Value of Assets" above.

TABLE 26
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2009
(\$ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan State Universities¹
Begin, Net Assets ²	\$10,995,366.5	\$38,430,723.2	\$14,586,325.5	\$75,405.9	\$612,680.6	\$64,700,501.5	\$616,385.0
Income							
Member Contributions	242,227.4	876,182.1	273,292.1	1,697.6	15,763.4	1,409,162.7	48,825.4
State and Employer Contributions	774,910.3	1,603,920.6	451,617.1	8,856.4	59,983.0	2,899,287.4	38,264.3
Investment Income	(2,208,897.6)	(8,688,285.5)	(2,850,697.1)	(14,662.3)	(122,716.5)	(13,885,259.0)	(116,422.8)
Expenditures							
Benefits and Refunds	1,315,073.2	3,707,423.1	1,414,642.0	15,928.8	86,268.8	6,539,335.9	13,456.7
Administration	10,681.4	17,387.9	12,922.1	276.7	565.6	41,833.7	
Ending Net Asset Balances							
(Fair Value)	8,477,852.1	28,497,729.4	11,032,973.4	55,092.1	478,876.1	48,542,523.1	N/A
Actuarial Value of Assets ³	10,999,953.5	38,026,043.5	14,281,998.1	71,573.9	616,849.1	63,996,418.1	N/A
Actuarial Accrued Liabilities	25,298,346.1	73,027,198.0	26,316,231.0	245,226.3	1,548,509.5	126,435,510.9	N/A
UAAL	14,298,392.6	35,001,154.5	12,034,232.9	173,652.4	931,660.5	62,439,092.9	N/A
Funded Ratio	43.5%	52.1%	54.3%	29.2%	39.8%	50.6%	N/A

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

(2) Reflects valuation of assets on a fair value basis as of June 30, 2008, per GASB Statement 25.

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

Note: Numbers may not add due to rounding.

TABLE 27
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2008
(\$ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan State Universities¹
Begin, Net Assets ²	12,078,909.0	41,909,318.0	15,985,730.2	87,182.2	670,091.0	70,731,230.4	584,020.4
Income							
Member Contributions	249,955.2	865,400	264,149.4	1,772.9	15,443.1	1,396,720.6	45,951.9
State and Employer Contributions	587,732.4	1,171,788	344,945.2	6,809.8	46,978.0	2,158,253.4	38,954.1
Investment Income	(680,759.7)	(2,014,902)	(675,722.1)	(4,708.3)	(37,976.5)	(3,414,068.6)	(39,127.0)
Expenditures							
Benefits	1,214,115.6	3,423,982	1,275,713.7	15,258.6	80,512.6	6,009,582.5	3,459.0
Refunds	16,817.4	60,286	44,984.3	147.8	842.0	123,077.5	9,955.3
Administration	9,537.3	16,613	12,079.2	244.2	500.4	38,974.1	
Ending Net Asset Balance	10,995,366.5	38,430,723	14,586,325.5	75,405.9	612,680.6	64,700,501.5	616,385.0
Actuarial Accrued Liabilities	23,841,280.1	68,632,367	24,917,678.0	235,780.1	1,457,336.1	119,084,441.2	N/A
UAAL	12,845,913.6	30,201,644	10,331,352.5	160,374.1	844,655.5	54,383,939.8	N/A
Funded Ratio	46.1%	56.0%	58.5%	32.0%	42.0%	54.3%	N/A

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

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

Note: Numbers may not add due to rounding.

TABLE 28
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2007
(\$ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan State Universities¹
Begin, Net Assets ²	10,899,853	36,584,899.4	14,175,147.2	82,254.8	599,234.1	62,341,378.5	350,180.6
Income							
Member Contributions	224,772.6	826,249.0	262,350.8	1,703.3	14,153.0	1,329,178.7	33,308.8
State and Employer Contributions	358,786.7	853,586.0	261,142.6	5,470.4	35,236.8	1,514,222.5	41,641.8
Investment Income	1,779,907.1	6,831,324.4	2,517,496.0	12,991.0	98,157.7	11,239,876.2	80,335.0
Expenditures							
Benefits	1,161,291.0	3,111,752.7	1,177,348.0	14,719.3	75,615.9	5,540,726.9	3,226.6
Refunds	14,261.9	59,731.9	41,353.8	297.8	620.6	116,266.0	12,053.6
Administration	8,807.6	15,246.2	11,704.5	220.3	454.2	36,432.8	-
Ending Net Asset Balance	12,078,909.0	41,909,318.0	15,985,730.2	87,182.2	670,091.0	70,731,230.4	584,020.4
Actuarial Accrued Liabilities	22,280,916.7	65,648,395.0	23,362,079.2	231,914.0	1,385,339.6	112,908,644.5	N/A
UAAL	10,202,007.7	23,739,077.0	7,376,349.0	144,731.8	715,248.6	42,177,414.1	N/A
Funded Ratio	54.2%	63.8%	68.4%	37.6%	48.4%	62.6%	N/A

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

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

Note: Numbers may not add due to rounding.

TABLE 29
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2006
(\$ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan State Universities¹
Begin, Net Assets ²	10,494,147.9	34,085,218.5	13,350,277.6	83,273.0	564,999.4	58,577,916.4	350,180.7
Income							
Member Contributions	214,108.8	799,034.3	180,018.0	1,491.8	13,833.1	1,208,486.0	29,366.2
State and Employer Contributions	210,499.7	657,847.8	252,921.8	4,175.4	29,337.9	1,154,782.6	39,470.3
Investment Income	1,113,231.7	3,993,289.8	1,532,095.6	7,873.0	61,329.7	6,707,819.8	34,714.7
Expenditures							
Benefits	1,110,585.9	2,877,230.5	1,085,383.7	14,065.8	68,997.1	5,156,263.0	1,181.6
Refunds	13,410.0	57,967.0	42,620.2	187.9	821.6	115,006.7	8,802.4
Administration	8,139.2	15,303.3	11,982.2	304.7	447.3	36,176.7	
Other			179.6			179.6	
Ending Net Asset Balance	10,899,853.0	36,584,889.4	14,175,147.2	82,254.8	599,234.1	62,341,378.5	350,180.6
Actuarial Accrued Liabilities	20,874,541.9	58,996,913.0	21,688,900.0	221,713.3	1,291,394.9	103,073,463.1	N/A
UAAL	9,974,688.9	22,412,023.6	7,513,752.8	139,458.5	692,160.7	40,732,084.5	N/A
Funded Ratio	52.2%	62.0%	65.4%	37.1%	46.4%	60.5%	N/A

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

(2) Reflects valuation of assets on a fair value basis as of June 30, 2006, per GASB Statement 25.

Note: Numbers may not add due to rounding.

TABLE 30 - SCHEDULE OF FUNDING PROGRESS⁽¹⁾

FISCAL YEAR	ACTUARIAL VALUE OF ASSETS ⁽²⁾ (a)	ACTUARIAL ACCRUED LIABILITY (b)	UNFUNDED ACCRUED ACTUARIAL LIABILITIES (UAAL) ⁽²⁾ (b-a)	FUNDED RATIO ⁽²⁾ (a/b)	PAYROLL (c)	UAAL AS A PERCENTAGE OF PAYROLL ⁽²⁾ [[b-a]/c]
2004	\$54,739.0	\$ 89,832.4	\$35,093.4	60.9%	\$13,674.3	256.6%
2005	58,577.9	97,179.0	38,601.1	60.3	14,106.8	273.6
2006	62,341.4	103,073.5	40,732.1	60.5	14,540.5	280.1
2007	70,731.2	112,908.6	42,177.4	62.6	15,249.2	276.6
2008	64,700.5	119,084.4	54,383.9	54.3	15,949.2	341.0
2009	63,996.4	126,435.5	62,439.1	50.6	16,606.6	376.0
2010	63,053.4	138,794.3	75,740.9	45.4	17,042.2	444.4
2009 ⁽³⁾	48,664.0	126,435.5	77,771.5	38.5	16,606.6	468.3
2010 ⁽³⁾	53,225.1	138,794.3	85,569.2	38.3	17,042.2	502.1

Sources: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal year ended June 30, 2009. Annual Actuarial Valuations of the Retirement Systems as of June 30, 2010. Table may not add due to rounding.

(1) In millions of dollars.

(2) For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was determined in accordance with the Asset Smoothing Method.

(3) Measures the Actuarial Value of Assets at fair value.

The cumulative value of the annual differences between the State's contribution to the Retirement Systems and the Actuarially Required Contribution is the "Net Pension Obligation." In any year that the State fulfills its obligation to contribute to the Retirement Systems, the addition to the Net Pension Obligation for such year will be equal to the difference between the Required Annual Statutory Contribution and the Actuarially Required Contribution. The Required Annual Statutory Contribution and the Actuarially Required Contribution differ in any given year as a result of the differences between the Statutory Funding Plan and GASB 25, as discussed in "ACTUARIAL METHODS—*Actuarial Accrued Liability*" above. Table 31 provides a schedule of the total Net Pension Obligation at the end of each of the last five fiscal years.

TABLE 31 - NET PENSION OBLIGATION⁽¹⁾

FISCAL YEAR	TRS	SURS	SERS	GARS	JRS	TOTAL
2006	\$8,508.6	\$4,984.0	\$ 658.9	\$44.1	\$303.5	\$14,499.1
2007	9,971.1	5,584.5	1,135.5	50.0	349.7	17,090.7
2008	11,075.7	6,121.0	1,554.6	55.0	386.0	19,192.3
2009	11,954.0	6,734.1	1,814.5	58.6	413.4	20,974.6
2010	12,586.1	7,250.8	1,933.3	61.6	431.5	22,263.3

Sources: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal year ended June 30, 2009. Annual Actuarial Valuations of the Retirement Systems as of June 30, 2010. Table may not add due to rounding.

(1) In millions of dollars.

A variety of factors impact the Retirement Systems' UAAL and Funded Ratio. Increases in member salary and benefits, a lower return on investment than that assumed by the Retirement Systems and insufficient contributions when compared to the Normal Cost plus interest will all cause an increase in the UAAL and a decrease in the Funded Ratio. Conversely, decreases in member salary and benefits, a

higher return on investment than assumed and employer contributions in excess of Normal Cost plus interest will decrease the UAAL and increase the funded ratio. In addition, changes in actuarial assumptions and certain other factors will have an impact on the UAAL and the Funded Ratio, as set forth in Table 32 below. No assurances can be given that the State will make the appropriations necessary to meet any escalating costs incurred by the Retirement Systems.

TABLE 32 - COMPONENTS OF CHANGE IN UNFUNDED LIABILITY⁽¹⁾

FISCAL YEAR	SALARY INCREASES/ (DECREASES)	INVESTMENT RETURNS (HIGHER)/LOWER THAN ASSUMED	EMPLOYER CONTRIBUTIONS HIGHER/(LOWER) THAN NORMAL COST PLUS INTEREST ⁽²⁾	BENEFIT INCREASES	CHANGES IN ACTUARIAL ASSUMPTIONS	OTHER FACTORS ⁽³⁾	TOTAL CHANGE IN UNFUNDED LIABILITY FROM PREVIOUS YEAR
2001	\$ 44.0	\$ 6,599.0	\$ 1,047.0	\$ 652.1	\$ -	\$1,068.1	\$ 9,410.3
2002	134.4	5,575.4	1,741.0	234.1	1,377.8	903.4	9,966.1
2003	125.6	2,071.5	2,435.1	2,425.0	-	1,101.0	8,158.3
2004	135.7	(3,841.8)	(4,689.8) ⁽⁴⁾	-	-	385.3	(8,010.6)
2005	35.1	(1,033.6)	2,431.5	-	26.4	2,048.3	3,507.8
2006	108.3	(1,843.1)	3,484.5	-	704.6	(323.2)	2,131.2
2007	314.9	(6,064.1)	3,321.0	-	2,735.2	1,138.3	1,445.2
2008	72.8	9,312.3	2,785.9	-	-	35.5	12,206.5
2009	(105.8)	7,080.7	3,237.0	-	(2,576.9)	420.1	8,055.2
2010	(422.0)	4,818.1	2,760.2	-	5,209.1	936.3	13,301.7
TOTAL	\$443.1	\$22,674.3	\$18,553.6	\$3,311.2	\$7,476.2	\$7,713.3	\$60,171.6

Source: Commission on Government Forecasting and Accountability, Report on the Financial Condition of the Illinois Retirement Systems: Financial Condition as of June 30, 2009. See "RECENT REPORTS REGARDING THE RETIREMENT SYSTEMS—*Report of the Commission on Government Forecasting and Accountability*." Fiscal year 2010 data compiled from the annual Actuarial Valuations of the Retirement Systems as of June 30, 2010. Table may not add due to rounding.

- (1) In millions.
- (2) 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.
- (3) Other factors include, but are not limited to, higher or lower incidences of retirement, disability, in-service mortality, retiree mortality or terminations than assumed.
- (4) Includes 2003 Pension Bonds. See "HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS" above.

LEGISLATION MODIFYING BENEFIT STRUCTURE

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

On March 24, 2010, the General Assembly enacted Public Act 96-0889 ("P.A. 96-889"). P.A. 96-889 provides for significant reforms to the Retirement Systems, most notably by establishing a "two-tier" benefit system with less generous benefits for future employees who become members of the Retirement Systems after January 1, 2011, as compared to those provided to current State employees. Among other reforms, P.A. 96-889:

- Increases the minimum age at which an active employee may retire with unreduced benefits to age 67 for employees hired after January 1, 2011, from age 60 or younger based on a formula combining the age of the employee and the number of years of service;
- Reduces the cost of living adjustment to the lower of 3% or 50% of the change in the consumer price index for all urban consumers, whichever is lower, and eliminates compounding for employees hired after January 1, 2011, from a cost of living adjustment of 3%, compounded;

- Calculates benefits based on the highest continuous eight years of compensation in the employee's last 10 years of employment for employees hired after January 1, 2011, from a calculation based on the highest four consecutive year average compensation;
- Caps the salary on which a pension may be calculated at \$106,800 (subject to certain adjustments for inflation); and
- Suspends retirement annuities if the annuitant accepts another public sector job covered by a public retirement system.

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

Taken independently of any other legislative or market effects, the reduced benefits afforded new hires by P.A. 96-889 is expected to reduce the growth in the Actuarial Accrued Liability, the UAAL and the Required Annual Statutory Contribution. In calculating the Actuarial Accrued Liability, the actuaries make assumptions about future benefit levels. As the value of future benefits decreases, as will occur when a greater percentage of the State's workforce is covered by P.A. 96-889, the Actuarial Accrued Liability is expected to decrease. Consequently, the UAAL is expected to decrease and the Funded Ratio to improve. As the growth in the UAAL slows, the Required Annual Statutory Contribution is expected to be reduced as the amount of UAAL to be amortized decreases.

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

Table 33 shows projected Required Annual Statutory Contributions to the Retirement Systems both before and after the enactment of P.A. 96-889. As a result of P.A. 96-889, the Required Annual Statutory Contribution is projected to decrease over 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 as discussed above and assumptions made regarding such future events, including the assumption that all projected contributions to the Retirement Systems are made as required. No assurance can be given that these assumptions will be realized or that actual events will not cause material changes to the data presented in this table.

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

FISCAL YEAR	PROJECTED REQUIRED ANNUAL STATUTORY CONTRIBUTIONS BEFORE P.A. 96-889	PROJECTED REQUIRED ANNUAL STATUTORY CONTRIBUTIONS AFTER P.A. 96-889
2011	\$ 4,541	\$ 4,156 ⁽²⁾
2012	4,949	4,866
2013	5,412	5,291
2014	5,880	5,719
2015	6,356	6,159
2016	6,649	6,409
2020	7,871	7,527
2025	9,709	9,187
2030	12,043	11,140
2035	16,127	14,225
2040	20,064	16,389
2045	25,139	18,986

Source: Contributions required before P.A. 96-889 - Compilation by Deloitte Consulting LLP, Chicago, Illinois, as of April 13, 2010, of information supplied by the Retirement Systems. Contributions required after P.A. 96-889 - Compiled from the annual Actuarial Valuations of the Retirement Systems as of June 30, 2010, as recertified by the Retirement Systems for fiscal year 2011 pursuant to Public Act 96-1511, effective January 27, 2011.

- (1) In millions of dollars. These projections are forward-looking statements regarding future events. No assurance can be given that actual events will not cause material changes to the data presented in this table. No assurance can be given that the assumptions underlying these projections will reflect those actually experienced by the Retirement Systems. In the event that the Retirement Systems' experience is different than the assumptions underlying these projections, the Required Annual Statutory Contributions may increase or decrease.
- (2) Pursuant to Public Act 96-1511, the Retirement Systems recertified the Required Annual Statutory Contribution for fiscal year 2011. Such recertification reduced the fiscal year 2011 Required Annual Statutory Contribution from \$4.541 billion to \$4.156 billion. Such a reduction in the Required Annual Statutory Contribution will have the effect of reducing the Actuarial Value of Assets at the end of fiscal year 2011, which will increase the UAAL and reduce the Funded Ratio.

PROJECTION OF FUNDED STATUS

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

TABLE 34 - PROJECTION OF FUTURE FUNDING STATUS⁽¹⁾

FISCAL YEAR	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (b)	UNFUNDED ACCRUED ACTUARIAL LIABILITIES (UAAL) (b-a)	FUNDED RATIO (a/b)
2011	\$ 62,534.3	\$145,157.3	\$ 82,623.0	43.1%
2012	62,119.5	152,001.9	89,882.4	40.9
2013	61,892.8	158,905.4	97,012.7	38.9
2014	65,706.2	165,863.0	100,156.8	39.6
2015	69,338.2	172,875.2	103,537.0	40.1
2016	73,011.7	179,929.1	106,917.4	40.6
2020	88,338.4	208,344.0	120,005.5	42.4
2025	110,149.2	243,821.6	133,672.3	45.2
2030	137,482.1	277,315.4	139,833.3	49.6
2035	173,093.5	304,324.9	131,231.4	56.9
2040	222,485.6	320,503.0	98,017.3	69.4
2045	292,042.8	324,490.7	32,447.9	90.0

Source: Compiled from the annual Actuarial Valuations of the Retirement Systems as of June 30, 2010.
 Note: This projection does not consider the effects of the recertification of the fiscal year 2011 Required Annual Statutory Contribution required by Public Act 96-1511, described in footnote 2 to Table 33 above.
 (1) In millions of dollars.

RECENT REPORTS REGARDING THE RETIREMENT SYSTEMS

Report of the Pension Modernization Task Force

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

The Final Report presents the findings of the three major subcommittees formed by the Task Force: (i) the Subcommittee on Investments, (ii) the Subcommittee on Benefits and (iii) the Subcommittee on Funding. The Subcommittee on Investments voted unanimously to reject a proposal by the State Treasurer to consolidate the management of the five Retirement Systems into a single investment entity. In addition, the Subcommittee on Investments considered whether the State should adopt actuarial assumed rates of return on investments at a level below the 8.0%-8.5% rates in use at the time of the issuance of the Final Report. Although the Subcommittee on Investments did not reach a conclusion on

this issue, the Subcommittee found that the rates of return currently employed by the Retirement Systems are higher than those assumed on private sector retirement plans regulated by the Employment Retirement Income Security Act (ERISA) and those used by other states' retirement systems, but noted that the Retirement Systems have historically experienced investment returns comparable to their actuarial assumed rates of return on investments.

The Subcommittee on Benefits examined the impact of the level of benefits provided by the Retirement Systems on the escalating UAAL. The Subcommittee determined that the current benefit structure was not the primary contributor to the pension crisis, instead faulting the State's inability to make the Actuarially Required Contribution in each year. In addition, this Subcommittee found that the benefits provided by the Retirement Systems were in line with the benefits provided by other states. Finally, this Subcommittee found that the State's Normal Costs were comparable, and at times less than, the cost of private sector retirement plans.

The Subcommittee on Funding examined the issues facing the Retirement Systems as a result of the sizable, growing UAAL. This Subcommittee suggested that the State (i) enhance its revenue system through reform and modernization, (ii) consider a new funding plan that front-loads costs in place of the Statutory Funding Plan or, at a minimum, retain and adhere to the Statutory Funding Plan, and (iii) direct the Commission on Government Forecasting and Accountability ("COGFA") to analyze proposals to sell certain State assets, such as the lottery and tollway system, and to use the proceeds to reduce the UAAL.

Report of the Commission on Government Forecasting and Accountability

COGFA prepared a report on the financial condition of the Retirement Systems as of June 30, 2009, in a report dated March, 2010 (the "COGFA Report"). COGFA is a bipartisan, joint legislative commission, intended 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 provided 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: <http://www.ilga.gov/commission/cgfa2006/home.aspx>. The State makes no representations nor expresses any opinion on the COGFA Report.

SEC INQUIRY

The State was contacted in September 2010 by the SEC regarding a non-public inquiry into communications by the State relating to the financial effects of P.A. 96-889 on the Illinois public pensions, including communications relating to the potential savings or reductions in contributions by the State to the Illinois public pensions. The SEC has informed the State that the inquiry should not be construed as an adverse reflection on any entity or individual involved, nor should it be interpreted as an indication by the SEC or its staff that any violation of the federal securities laws has occurred. The SEC has asked for information as part of its inquiry. The State is cooperating fully and is providing information in response to the SEC's requests. The State is unable to predict the ultimate outcome of such inquiry.

Prior to the SEC inquiry and in response to statements made by the SEC in a recent enforcement action against the State of New Jersey (SEC Rel. No. 9135, August 18, 2010), the State engaged the law firm of

Chapman and Cutler LLP, Chicago, Illinois (“Chapman”), to assist the State in reviewing the enforcement action against New Jersey and, accordingly, updating the information contained in this Section and drafting the disclosure policies and procedures set forth in the following Subsection.

PENSION DISCLOSURE POLICIES AND PROCEDURES

With the assistance of Chapman, the State has reviewed, evaluated, and enhanced its pension disclosure process by instituting formal, written policies and procedures. In its written policies and procedures, among other things, the State established a committee within the GOMB consisting of GOMB employees (the “Disclosure Committee”) to oversee the pension disclosure process. The GOMB Director of Capital Markets serves as chairperson of the Disclosure Committee, and the general counsel of the GOMB serves as an ex-officio member. The Disclosure Committee has primary responsibility for drafting, editing and updating the State’s pension disclosure. Prior to release of the disclosure in an official statement or at the time of an update as mandated in the policies and procedures, the disclosure will be submitted to the Retirement Systems, COGFA, the Office of the Comptroller, the Office of the Treasurer and the Office of the Attorney General for their review and comment.

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

Chapman has been retained by and is acting as disclosure counsel to the State solely in connection with the information contained in this Section. Chapman has not been retained or consulted on disclosure matters with respect to any other portion of this Official Statement or any other offering materials relating to the Bonds.

OTHER POST EMPLOYMENT BENEFITS

As required by GASB Statement No. 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, the State has determined that the accrued actuarial liability associated with Other Post Employment Benefits (OPEB) as reported in the 2009 CAFR was \$27,124 million as of June 30, 2009. The valuation was conducted by an independent actuary based on census data, employer contributions, and payroll amounts provided by the State. Individuals covered include State and University employees, retirees and dependents. Illinois teachers are not included as they participate in a multiemployer cost sharing plan, which GASB excludes from Statement #45.

At the present time, the State is not prefunding its obligation. During Fiscal Year 2009 the State incurred an Annual Required Contribution of \$1,840 million, while making an actual contribution of \$604 million, resulting in a \$1,236 million increase of the balance sheet liability to a total of \$2,474 million as of June 30, 2009.

LITIGATION

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

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

TAX PROTEST LITIGATION

In the case of *Wirtz v. Quinn, et al.*, No. 09-CH-30136 (Ill. Cir. Ct., Cook County) and No. 09-3163 (Ill. Appellate Ct., First Dist.), petitioners sought leave to file a taxpayer action that would raise both procedural and substantive constitutional challenges to the validity of Public Acts 96-34 (establishes as a special fund in the State Treasury the Capital Projects Fund and, through various measures, raises revenue

for deposit into the Capital Projects Fund to be used, in part, to pay the debt service for general obligation bonds and sales tax revenue bonds authorized under Public Act 96-36), 96-35 (appropriates monies for various projects), 96-37 (makes changes to the Act and various other substantive provisions related to the State's capital plan) and 96-38 (makes changes with respect to certain revenue measures enacted in Public Act 96-34). The court dismissed the petition, but petitioners appealed.

On January 26, 2011, the First District Appellate Court entered an opinion declaring unconstitutional and invalid Public Act 96-34, on the grounds that it violated the single subject requirement of the Illinois Constitution, and Public Acts 96-35, 96-37, and 96-38, because they were contingent on the enactment of Public Act 96-34. Public Acts 96-35, 96-37, and 96-38, along with Public Act 96-36, authorized and established revenues for, and appropriated funds for \$31 billion in capital development projects throughout the State in 2009. Public Act 96-36, the Act authorizing the issuance of the general obligation bonds and the sales tax revenue bonds, was not challenged by the petitioners in this matter and remains in full force and effect.

On January 28, 2011, the State filed a motion in the Illinois Supreme Court, for a stay of enforcement of the First District Appellate Court's January 26, 2011 opinion, advising the Supreme Court of their intent to promptly file a petition for review "as of right" of the Appellate Court's decision in this case. The petitioners' response to this motion stated that they have no objection to the requested stay. In addition, the State intends to appeal the First District Appellate Court's opinion.

On February 1, 2011, the Illinois Supreme Court granted the motion of the State and entered an order staying enforcement of the First District Appellate Court's January 26, 2011 decision until the Supreme Court resolves the matter or orders otherwise.

The cases of *Wirtz Beverage Illinois, LLC v. Quinn*, No. 09 L 51244, *Wirtz Beverage Illinois Belleville, LLC v. Quinn*, No. 09 L 51392, and *Southern Wine & Spirits of Illinois, Inc. v. Quinn*, No. 09 L 51401, were all filed in Cook County and are all predicated on the same allegations of unconstitutionality of the Public Acts described above. Each case involves the payment of additional liquor taxes under protest, and in each case there is in place a restraining order that prevents the transfer of the paid monies from the Protest Fund to the Capital Projects Fund. A motion to dismiss filed in the three consolidated cases was argued on May 5, 2010 and taken under advisement by the circuit court.

With respect to the litigation described above, if the Illinois Supreme Court affirms the First District Appellate Court's opinion invalidating Public Acts 96-34, 96-35, 96-37, and 96-38, that Illinois Supreme Court ruling would not invalidate the general obligation bonds and sales tax revenue bonds authorized by Public Act 96-36, or affect the general obligation nature of the general obligation bonds authorized by Public Act 96-36; the ruling, however, would affect one of the two sources of payment of the sales tax revenue bonds. If the Illinois Supreme Court affirms the First District Appellate Court's opinion invalidating Public Act 96-35, the State would, to the extent the proceeds of the previously authorized general obligation bonds and sales tax revenue bonds are to be used to pay for projects for which funds were appropriated in that Public Act, need to reappropriate funding for those projects or apply the proceeds to other projects for which funds are appropriated. The State can give no assurance as to the final disposition of the litigation or that the State General Assembly will pass legislation intended to address the impact of a judgment by the Illinois Supreme Court in favor of the plaintiffs.

The Bonds being offered pursuant to this Official Statement are not the subject of the Wirtz litigation and are not authorized or secured by the Public Acts affected by the Wirtz litigation.

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

FEE PROTEST LITIGATION

In November 2004, in connection with litigation related to the workers' compensation surcharge, the Circuit Court of Cook County ruled that the imposition of a surcharge on workers' compensation insurance policies coupled with a mechanism to transfer a portion of surcharge proceeds to the State's General Funds pursuant to Public Act 93-32 was unconstitutional. As a result, the court escrowed \$11.5 million of surcharge proceeds pending final disposition of the case. The State appealed the ruling directly to the Illinois Supreme Court. The Court heard argument in May 2005 and in October 2005 released its opinion reversing the lower court's order granting plaintiff summary judgment and remanding the matter to the circuit court for further proceedings. In October 2005, on the State's motion, the trial court released approximately \$1.4 million from escrow to fund Illinois Workers' Compensation Commission ("IWCC") operations through November 2005. The court further agreed to the future release, on a monthly basis upon the State's petition, of amounts sufficient to fund ongoing IWCC operations. Since October 2005, the IWCC has on a regular basis requested and the Circuit Court of Cook County has released monies sufficient to fund the IWCC's on-going operations. As of December 2009, approximately \$22.5 million remained in escrow. In addition, the trial court has allowed certain insurance companies to make surcharge payments into the Protest Fund. As of December 2009, approximately \$58 million in such payments have been deposited into the Protest Fund. The case remains pending.

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

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

In June 2006, in the motorcyclist case, the Sangamon County Court denied the plaintiffs' motion for a temporary restraining order as to all but two funds; plaintiffs had previously sought to enjoin transfers from 39 state funds. In November 2006, the Sangamon County Court granted the State's motion to dismiss the motorcyclists' litigation as to two State funds, and in October 2008, the Sangamon County Court granted the State's motion for summary judgment the motorcyclists' litigation with respect to the final State fund. Following the Sangamon County Court's denial of the motorcyclists' motion to reconsider in January, 2009, the motorcyclists filed an appeal with the Illinois Appellate Court. The Illinois Appellate Court upheld the circuit court's decision granting the State summary judgment on May 27, 2010. On September 20, 2010, the Illinois Supreme Court granted the motorcyclists' petition for leave to appeal. The case is now pending before the Illinois Supreme Court.

In January 2008, in the property and casualty insurance case, the Sangamon County Court denied the plaintiff's motion for summary judgment, holding that the statutory authorization to transfer money from the relevant fund was controlling over an earlier statutory prohibition for such fund transfers. Finally, in the real estate sales' litigation, the State's motion to dismiss remains pending before the Sangamon County Court.

The State anticipates that it will dispose, in whole or substantial part, of all the remaining matters pending in Cook and Sangamon Counties based upon the trial court rulings in the motorcyclist and property and casualty cases, as well as prior Illinois Appellate and Supreme Court rulings.

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

RETALIATORY TAX LITIGATION

In May 2005, the Director of Insurance assessed Sun Life Assurance Company of Canada approximately \$4 million in additional tax owed pursuant to the so-called "retaliatory" statute (215 ILCS 5/444). Sun Life objected to the assessment and filed an action seeking a declaration that the tax is unconstitutional and in violation (among other reasons) of the Commerce Clause. The company sought and obtained an injunction barring the State from collecting the tax. The State prevailed in both the trial and appellate courts, and on November 29, 2007, the Illinois Supreme Court affirmed the trial and appellate courts in all regards, holding that Illinois' insurance retaliatory tax law does not discriminate against non-U.S. insurers. The court further held that federal law, and specifically the McCarran-Ferguson Act, imposes no limits on a state's authority to assess retaliatory taxes on alien insurers. The mandate issued January 14, 2008. In a separate action, John Hancock Life Insurance Company filed suit in Cook County challenging the State's collection of approximately \$7 million in retaliatory tax. On January 2, 2008, the trial court granted summary judgment for the State, holding that the application of the retaliatory tax to this company on these facts did not violate the Illinois Constitution's Uniformity Clause. In August of 2008, Hancock filed an appeal in Illinois Appellate Court. In an unpublished decision (Rule 23 Order) entered February 11, 2010, the Illinois Appellate Court affirmed the judgment of the trial court. The mandate issued April 1, 2010.

RATINGS

The State has received ratings from Moody's Investors Service, Inc. ("Moody's"), Fitch Ratings Inc. ("Fitch") and Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies ("S&P") (collectively, the "Rating Agencies") for its long term General Obligation Bonds (which include the Bonds). As of the date of this Official Statement, the Bonds are rated "A1" with a Negative Outlook by Moody's, "A" with a Stable Outlook by Fitch, and "A+" with a Negative Outlook by S&P. These ratings reflect the view of such organizations, and an explanation of the significance of such ratings may be obtained only from the respective Rating Agencies. As part of the State's application for the ratings, certain information and materials, some of which are not contained herein, have been supplied to the Rating Agencies. The ratings are neither a "market" rating nor a recommendation to buy, sell or hold the Bonds and the ratings and the Bonds should be evaluated independently.

The ratings assigned to the State's long term General Obligation Bonds by Moody's and Fitch reflect the new recalibrated rating scales of such Rating Agencies. Further information regarding the recalibration may be obtained directly from such Rating Agencies.

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

revision or withdrawal of any such ratings may have an adverse effect on the prices at which the Bonds may be resold.

TAX MATTERS

NOTICE PURSUANT TO IRS CIRCULAR 230

The discussion below is not intended or written by the State or Bond Counsel to be used, and cannot be used by any person, for the purpose of avoiding tax penalties that might be imposed under U.S. tax laws. This discussion is provided to support an offering of the Bonds, and accordingly is written in support of the promotion or marketing of the Bonds. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor concerning the potential tax consequences of an investment in the Bonds.

GENERAL

Interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes. Owners of the Bonds should consult their own tax advisors with respect to the inclusion of interest on the Bonds in gross income for federal income tax purposes.

The Internal Revenue Code of 1986, as amended (the "Code") contains a number of provisions relating to the taxation of securities such as the Bonds (including but not limited to the tax treatment of and accounting for interest, premium, original issue discount and market discount thereon, gain from the sale, exchange or other disposition thereof and withholding and backup withholding tax on income therefrom) that may affect the taxation of certain owners, depending on their particular tax situations. Owners of the Bonds should consult their own tax advisors as to the particular federal income tax consequences of their ownership of the Bonds.

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. Prospective purchasers of the Bonds should consult their own tax advisors regarding the application of any such state and local taxes.

The discussion of tax matters in this Official Statement applies only in the case of purchasers of the Bonds at original issuance and at the respective prices indicated on the inside cover page hereof. It does not address any other tax consequences such as, among others, the consequences of the existence of any market discount to subsequent purchasers of the Bonds.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of the principal United States federal income tax consequences of ownership of the Bonds. It deals only with Bonds held as capital assets by initial purchasers, and not with special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold Bonds that are a hedge or that are hedged against currency risks or that are part of a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar. The summary is based on the Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect.

Prospective purchasers of the Bonds should consult their own tax advisors concerning the consequences, in their particular circumstances of ownership of the Bonds, under the Code and the laws of any other taxing jurisdiction.

The following summary also does not address the tax treatment of Bonds acquired by partnerships (or other entities that are treated as partnerships for United States federal income tax purposes). Federal income tax and withholding tax treatment of income and gain recognized by a partnership generally depends, in substantial part, on the characteristics and tax circumstances of the partners in the partnership.

Prospective Bond purchasers that are partnerships should consult their own tax advisors regarding these matters.

UNITED STATES HOLDERS

Payments of Interest. Interest on the Bonds will be taxable to a United States Holder (as defined below) as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes in accordance with generally applicable principles.

A United States Holder for purposes of this discussion is a beneficial owner of a Bond for U.S. federal income tax law purposes and:

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

The term "Non-U.S. Holder" refers to any beneficial owner of a Bond who or which is not a United States Holder or a partnership or other entity that is treated as a partnership for United States federal income tax purposes.

SALE AND RETIREMENT OF THE BONDS

United States Holders of the Bonds will recognize gain or loss on the sale, redemption, retirement or other disposition of such Bonds. The gain or loss is measured by the difference between the amount realized on the disposition of the Bond and the United States Holder's adjusted tax basis in the Bond. Such gain or loss will be capital gain or loss and will be long term capital gain or loss if at the time of disposition such Bond has been held for more than one year.

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES FOR NON-U.S. HOLDERS

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

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

Except to the extent otherwise provided under an applicable tax treaty, an owner generally will be taxed in the same manner as a United States Holder with respect to interest payments on a Bond if such interest is effectively connected with the conduct of a trade or business in the United States. Effectively connected

interest received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional “branch profits tax” at a 30% rate (or, if applicable, a lower treaty rate), subject to certain adjustments. Such effectively connected interest will not be subject to withholding tax if the holder delivers an IRS Form W-8ECI to the payor.

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

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

U.S. Federal Estate Tax. A Bond held by an individual who at the time of death is not a citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) will not be subject to United States federal estate tax if at the time of the individual’s death, payments with respect to such Bond would not have been effectively connected with the conduct by such individual of a trade or business in the United States. The United States federal estate tax was repealed effective March 1, 2010. In addition, the legislation repealing the estate tax expires in 2011, and thus the estate tax will be reinstated at that time.

BACKUP WITHHOLDING AND INFORMATION REPORTING

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

Non-U.S. Holders. Backup withholding and information reporting on Form 1099 will not apply to payments of principal and interest on the Bonds by the State or its agent to a Non-U.S. Holder provided the Non-U.S. Holder provides the certification described above under “UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS - *Withholding Tax on Payments of Principal of and Interest on Bonds*” or otherwise establishes an exemption (provided that neither the State nor its agent has actual knowledge that the owner is a United States person or that the conditions of any other exemptions are not in fact satisfied). Interest payments made to a Non-U.S. Holder may, however, be reported to the IRS and to such Non U.S. Holder on Form 1042-S.

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

holder certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

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

FOREIGN ACCOUNT COMPLIANCE

Congress recently enacted legislation that significantly changes the reporting requirements imposed on certain non-U.S. persons, including certain foreign financial institutions and investment funds. In general, a 30% withholding tax could be imposed on payments made to any such non-U.S. person unless such non-U.S. person complies with certain reporting requirements regarding its direct and indirect U.S. shareholders and/or U.S. accountholders. Such withholding could apply to payments regardless of whether they are made to such non-U.S. person in its capacity as a holder of a note or in a capacity of holding a note for the account of another. These rules generally would apply to payments made after December 31, 2012, but would exempt from withholding payment on, or proceeds in respect of, debt instruments outstanding on the date two years after the date of enactment (March 18, 2010). The scope and application of this legislation are unclear because regulations interpreting the legislation have not yet been promulgated. As a result, potential investors are encouraged to consult with their tax advisors regarding the possible implications of this legislation on an investment in the Bonds.

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

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

The purchase of the Bonds by or on behalf of a Benefit Plan Investor could give rise to a prohibited transaction if the underwriter or an affiliate of the underwriter is a party in interest or a disqualified person with respect to such Benefit Plan Investor. Certain statutory and administrative exemptions from the prohibited transaction rules could be applicable to the purchase of the Bonds by a Benefit Plan Investor depending on the type and circumstances of the plan fiduciary making the decision to acquire such Bonds and the relationship of the party in interest or disqualified person to the Benefit Plan Investor. Included among these exemptions are: Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain transactions between a Benefit Plan Investor and non-fiduciary service providers to the Benefit Plan Investor; Prohibited Transaction Class Exemption ("PTCE") 96-23, regarding transactions effected by "in-house asset managers;" PTCE 95-60, regarding investments by insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, regarding transactions

effected by “qualified professional asset managers.” Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. There can be no assurance that any of these, or any other exemption, will be available with respect to any particular transaction involving the Bonds, and prospective investors that are Benefit Plan Investors and other Plans should consult with their legal advisors regarding the applicability of any such exemption and other applicable legal requirements.

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

CONTINUING DISCLOSURE

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

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

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinion of Kutak Rock LLP, Chicago, Illinois (“Bond Counsel”), who has been retained by, and acts as, Bond Counsel to the State. Bond Counsel has not been retained or consulted on disclosure matters and has not undertaken to review or verify the accuracy, completeness or sufficiency of this Official Statement or other offering material relating to the Bonds and assumes no responsibility for the statements or information contained in or incorporated by reference in this Official Statement, except that in its capacity as Bond Counsel, Kutak Rock LLP has, at the request of the State, reviewed only those portions of this Official Statement involving the description of the Bonds, the security for the Bonds (excluding forecasts, projections, estimates or any other financial or economic information in connection therewith), and the description of certain federal tax consequences of ownership of the Bonds. This review was undertaken solely at the request and for the benefit of the State and did not include any obligation to establish or confirm factual matters set forth herein. The form of opinion expected to be delivered by Bond Counsel is contained in APPENDIX B hereto. Certain legal matters will be passed upon for the Underwriters by Peck, Shaffer & Williams LLP, Chicago, Illinois, Underwriters’ Counsel. Chapman and Cutler LLP, Chicago, Illinois, will act as disclosure counsel to the State solely in connection with the section entitled “PENSION SYSTEMS.” Chapman and Cutler LLP has not been

retained or consulted on disclosure matters with respect to any other portion of this Official Statement or any other offering materials relating to the Bonds.

UNDERWRITING

The Bonds are being purchased by an underwriting group (the “Underwriters”) led by Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co. and Loop Capital Markets LLC pursuant to a Contract of Purchase by and among the Underwriters and the State at a purchase price of \$3,684,637,709.67 (being the principal amount of \$3,700,000,000, less an Underwriters’ discount of \$15,362,290.33). The State has been advised by the Underwriters that the Bonds may be offered and sold to certain dealers and others at prices lower than the initial public offering prices and the public offering prices may be changed from time to time by the Underwriters. Any obligations of the Underwriters are the sole obligations of the Underwriters and do not create any obligations on the part of any affiliate of the Underwriters, including any affiliated banks.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the State, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the State.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an underwriter of the Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Loop Capital Markets LLC, an underwriter of the Bonds, has entered into an agreement (the “Distribution Agreement”) with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement, Loop Capital Markets LLC will share a portion of its underwriting compensation with respect to the Bonds with UBS Financial Services Inc.

Wells Fargo Bank, National Association (“WFBNA”), one of the underwriters of the Bonds, has entered into an agreement (the “Wells Fargo Distribution Agreement”) with Wells Fargo Advisors, LLC (“WFA”) for the retail distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Wells Fargo Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

As used on the cover page of this Official Statement, BMO Capital Markets is the trade name for BMO Capital Markets GKST Inc.

FINANCIAL ADVISOR

Peralta Garcia Solutions, LLC, Chicago, Illinois, has been retained by the State to serve as Financial Advisor with respect to the Bonds. Under the terms of its engagement, the Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification of or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

ADDITIONAL INFORMATION

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

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

The Director of the GOMB (the "Director") will provide to the Underwriters at the time of delivery of the Bonds a certificate confirming that, to the best of his knowledge, the Official Statement was, as of its date, and is, at the time of such delivery, true and correct in all material respects and did not and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

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MISCELLANEOUS

Additional information regarding the Bonds and this Official Statement is available by contacting the Governor's Office of Management and Budget, 108 State House, Springfield, Illinois 62706; telephone: (217) 782-4520.

The State has authorized the distribution of this Official Statement.

STATE OF ILLINOIS

By: /s/ David H. Vaught
Director, Governor's Office of Management and Budget

APPENDIX A

CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS

Economic Data

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

Table A-1
PAYROLL JOBS BY INDUSTRY, SEASONALLY ADJUSTED – November 2010
(Thousands)

Industry Employment Sector	<u>Illinois</u>	<u>% of Total</u>	<u>U.S.</u>	<u>% of Total</u>
Natural Resources and Mining	10	0.2%	764	0.6%
Construction	200	3.6%	5,619	4.3%
Information and Financial	464	8.3%	10,296	7.9%
Manufacturing	564	10.0%	11,660	8.9%
Trade, Transportation and Utilities	1,134	20.2%	24,849	19.0%
Professional and Business Services	785	14.0%	16,847	12.9%
Education and Health Services	837	14.9%	19,728	15.1%
Leisure and Hospitality	499	8.9%	13,184	10.1%
Other Services	257	4.6%	5,393	4.1%
Government	856	15.3%	22,269	17.0%
Total	5,606	100.0%	130,609	100.0%

Source: U.S. Department of Labor, Bureau of Labor Statistics, December 2010.

Table A-2
NON-AGRICULTURAL PAYROLL JOBS BY INDUSTRY
ILLINOIS - 2004 THROUGH 2009
(Thousands)

Industry Employment Sector	2004	2005	2006	2007	2008	2009
Total Non-Agricultural Employment	5,827	5,931	5,970	5,991	5,784	5,558
Natural Resources and Mining	9	10	10	10	10	9
Construction	265	275	279	273	235	202
Manufacturing	699	688	679	673	616	554
Trade, Transportation and Utilities	1,201	1,223	1,217	1,202	1,177	1,121
Information and Financial Activities	519	524	532	526	496	469
Professional and Business Services	799	837	858	882	816	768
Educational and Health Services	731	758	759	782	804	821
Leisure and Hospitality	509	512	532	539	514	507
Other Services	257	260	261	261	261	253
Government	838	844	843	844	854	854

Source: U.S. Department of Labor, Bureau of Labor Statistics, December 2010.

Agriculture

Illinois ranks prominently among states for agricultural activity and exports. Tables A-3 and A-4 summarize key agricultural production statistics including rank among all states for the years 2005 to 2009.

Table A-3
ILLINOIS CASH RECEIPTS FROM CROPS AND LIVESTOCK
(\$ in Millions)

	2005	2006	2007	2008	2009	2009 Rank
Crops	\$7,010	\$7,232	\$10,491	\$14,232	\$12,696	2
Livestock	<u>1,970</u>	<u>1,825</u>	<u>2,113</u>	<u>2,125</u>	<u>1,849</u>	25
Total	\$8,980	\$9,057	\$12,604	\$16,357	\$14,545	5

Source: U.S. Department of Agriculture-Economic Research Service, December 2010.

Table A-4
AGRICULTURAL EXPORTS
Federal Fiscal Year 2009
(\$ in Millions)

Agricultural Exports	U.S. Total	Illinois Share	% of U.S.	Rank
All Commodities	\$283,406	\$14,545	5.1%	5
Feed Grain and Products	50,176	7,605	15.2%	2
Soybeans and Products	30,056	4,233	14.1%	2

Source: U.S. Department of Agriculture-Economic Research Service, December 2010.

Contract Construction

Contracts for future construction in Illinois averaged \$19.4 billion annually during the period 1997 through 2008 and totaled \$20.8 billion in 2008. During the period 1997 through 2008, building permits issued for residential construction averaged 52,441 annually, with an average annual valuation of \$7.4 billion. Table A-5 presents annual data on contracts for future construction and residential building activity.

Table A-5
CONTRACTS FOR FUTURE CONSTRUCTION
AND RESIDENTIAL BUILDING ACTIVITY
(Valuations in \$ Millions)

Year	Future Contracts for Residential, Non-residential and Non-building Construction ¹		Residential Building Activity (Privately-Owned Housing Units) ²	
	Valuation	Permits	Permits	Valuation (\$ in Millions)
1997	12,703	46,323		5,087
1998	15,000	47,984		5,618
1999	16,450	53,974		6,538
2000	16,945	51,944		6,528
2001	19,393	54,839		7,141
2002	20,653	60,971		8,546
2003	19,033	62,211		9,106
2004	21,823	59,753		9,551
2005	24,325	66,942		10,963
2006	24,306	58,802		9,470
2007	20,896	43,020		6,936
2008	24,415	22,528		3,783
2009	14,471	10,912		2,175
2010	14,192*	10,460		2,199*

*Data as of November 2010

¹Department of Commerce and Economic Opportunity.

²U.S. Census Bureau, Housing Units Authorized by Building Permits: Annual, various issues, December 2010.

Personal Income

Per capita income in Illinois is greater than the average in both the United States and the Great Lakes Region. Table A-6 presents personal income data, and Table A-7 presents per capita income comparisons.

Table A-6
PERSONAL INCOME
(\$ in Billions)

	1990	2003	2004	2005	2006	2007	2008	2009
Illinois	\$238	\$427	\$445	\$463	\$491	\$526	\$547	\$541
United States	4,886	9,150	9,711	10,253	10,977	11,632	12,087	12,016

Source: U.S. Department of Labor, Bureau of Labor Statistics, December 2010.

Table A-7
PER CAPITA PERSONAL INCOME

	<u>1990</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Rank</u>
Illinois	\$20,835	\$37,168	\$39,549	\$41,569	\$42,347	\$41,411	14
United States	19,354	35,477	37,728	39,340	40,208	39,138	--

Ten Most Populous States:

New Jersey	17,421	43,831	46,763	49,511	50,919	50,313	1
New York	21,638	39,967	44,027	46,364	48,076	46,957	2
California	24,572	36,936	39,626	41,805	42,696	42,325	3
Illinois	\$20,835	\$37,168	\$39,549	\$41,569	42,347	41,411	4
Pennsylvania	18,922	34,937	36,826	38,793	40,265	39,578	5
Florida	19,867	34,001	36,720	38,417	39,070	37,780	6
Texas	23,523	32,460	35,166	37,083	38,575	36,484	7
Ohio	19,564	31,860	33,320	34,468	35,511	35,381	8
Michigan	18,743	32,804	33,788	34,423	35,299	34,025	9
Georgia	17,603	30,914	32,095	33,499	33,975	33,786	10

Great Lakes States:

Illinois	\$20,835	\$37,168	\$39,549	\$41,569	42,347	41,411	1
Wisconsin	18,072	33,278	34,405	36,272	36,314	36,822	2
Ohio	19,564	31,860	33,320	34,468	35,511	35,381	3
Michigan	18,743	32,804	33,788	34,423	35,299	34,025	4
Indiana	17,491	31,173	32,288	33,215	34,103	33,725	5
Average	18,599	33,076	34,103	35,878	36,925	36,273	

Source: U.S. Department of Commerce, Bureau of Economic Analysis, December 2010.

Employment

Table A-8
NUMBER OF UNEMPLOYED

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010*</u>
United States	8,149,000	7,591,000	7,001,000	7,078,000	8,924,000	15,142,000	14,876,000
Illinois	396,900	371,800	302,800	341,020	433,700	674,692	648,715
Bloomington-Normal MSA	3,842	3,688	3,093	3,582	4,679	6,711	6,778
Champaign-Urbana MSA	5,283	5,022	4,530	5,404	6,967	10,349	10,683
Chicago PMSA	294,099	278,513	217,021	242,098	306,184	487,100	435,563
Danville-MSA	3,043	2,481	2,233	2,456	3,096	4,499	4,196
Davenport-Moline-Rock Island MSA	10,347	9,487	8,701	9,047	10,779	17,617	16,629
Decatur MSA	3,637	3,312	2,917	3,242	3,962	6,753	6,026
Kankakee MSA	3,889	3,466	3,095	3,710	4,951	7,057	6,981
Peoria-Pekin MSA	10,232	9,197	7,939	9,314	11,620	23,079	19,012
Rockford MSA	12,249	10,924	9,191	11,254	15,978	27,340	25,008
Springfield MSA	5,797	5,231	4,832	5,407	6,780	8,981	8,949

*Data as of October 2010

Source: United States Department of Labor, Bureau of Labor Statistics Data, December 2010.

Table A-9
UNEMPLOYED RATE (%)

	2004	2005	2006	2007	2008	2009	2010*
United States	5.5	5.1	4.6	4.6	5.8	10.0	9.7
Illinois	6.2	5.8	4.6	5.1	6.5	10.1	9.8
Bloomington-Normal MSA	4.5	4.3	3.6	4.0	5.1	7.2	7.3
Champaign-Urbana MSA	4.6	4.3	3.9	4.5	5.7	8.3	8.4
Chicago PMSA	6.3	6.0	4.5	4.9	6.2	10.0	9.0
Danville MSA	8.1	6.5	6.0	6.5	8.2	11.5	11.0
Davenport-Moline-Rock Island MSA	5.2	4.7	4.3	4.4	5.2	8.1	8.1
Decatur MSA	7.0	6.3	5.6	5.9	7.2	11.4	10.9
Kankakee MSA	7.5	6.6	5.9	6.6	8.8	12.1	12.0
Peoria-Pekin MSA	5.6	4.9	4.2	4.6	5.7	10.4	9.3
Rockford MSA	7.5	6.7	5.6	6.4	9.1	15.0	14.4
Springfield MSA	5.3	4.7	4.4	4.7	5.9	7.4	7.6

Note: U.S. BLS dropped Quad Cities Region and St. Louis MSA, IL portion and added Danville and Davenport-Moline-Rock Island MSAs.

*Data as of October 2010

Source: United States Department of Labor, Bureau of Labor Statistics Data, December 2010.

Population

Illinois is the nation's fifth most populous state. The State's population is approximately 12.9 million according to the U.S. Bureau of the Census for calendar year 2009.

Table A-10
POPULATION
ILLINOIS AND SELECTED METROPOLITAN STATISTICAL AREAS

	1980	1990	2000	2009
Illinois	11,427,409	11,430,602	12,419,293	12,910,409
Chicago CMSA (IL Part)	7,348,874	7,410,858	8,272,768	9,580,609
St. Louis MSA (IL Part)	588,464	588,995	599,845	684,849
Rockford MSA	325,852	329,676	371,236	353,722
Peoria MSA	365,864	339,172	347,387	375,779
Springfield MSA	187,770	189,550	201,437	207,775
Champaign-Urbana MSA	168,392	173,025	179,669	224,193

Note: Population data for 1980 and 1990 were adjusted to reflect Metropolitan Statistical Area definitions.

Source: U.S. Bureau of the Census, Population Division, Annual Estimates of the Population for Metropolitan Areas of Illinois, December 2010.

Organization

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

The Illinois Constitution provides that all elected officials of the Executive Branch of the State government hold office for four-year terms. Pursuant to the State Constitution, these officials were elected at a general election in November 2010 and took office as of January 10, 2011. The current Governor, Pat Quinn, was elected Lieutenant Governor at a general election in November 2006, took office as Lieutenant Governor on January 8,

2007, took office as Governor on January 30, 2009, was elected to a new term as Governor at the November 2010 general election and took office as Governor for such new term on January 10, 2011.

The legislative power of the State is vested in the General Assembly, which is composed of the Senate and the House of Representatives. Both the Senate and the House of Representatives meet in annual sessions to enact, amend or repeal laws and to adopt appropriation bills.

The judicial branch is composed of the Supreme Court, the Appellate Courts and the Circuit Courts.

APPENDIX B

**FORM OF APPROVING OPINION OF
BOND COUNSEL**

[TO BE DATED CLOSING DATE]

State of Illinois
Springfield, Illinois

Re: \$3,700,000,000 State of Illinois General Obligation Bonds,
Taxable Series of February 2011

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the State of Illinois (the “State”) of its \$3,700,000,000 General Obligation Bonds, Taxable Series of February 2011 (the “Bonds”). The Bonds are being issued pursuant to the provisions of Section 9(b) of Article IX of the Illinois Constitution of 1970, the General Obligation Bond Act, 20 Illinois Compiled Statutes 330, and a Bond Sale Order dated February 23, 2011 (the “Bond Sale Order”).

The Bonds are dated the date hereof and mature on March 1 of the years, in the amounts and bear interest as follows:

<u>Maturity (March 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>
2014	100,000,000	4.026
2015	300,000,000	4.511
2016	600,000,000	4.961
2017	900,000,000	5.365
2018	900,000,000	5.665
2019	900,000,000	5.877

The Bonds are subject to optional redemption on any Business Day (as defined in the Bond Sale Order) at a redemption price equal to the “Make-Whole Redemption Price” calculated pursuant to the provisions of the Bond Sale Order.

In our capacity as bond counsel, we have examined a certified record of such proceedings of the State authorizing the issuance, sale and delivery of the Bonds and such other matters of fact and law as we have deemed necessary to render this opinion (collectively, the “Proceedings”). As to questions of fact material to our opinion, we have relied upon the Proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

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

1. The Proceedings show lawful authority for the issuance of the Bonds under the laws of the State of Illinois now in force.
2. The form of the Bonds prescribed for said issue is in due form of law.
3. Pursuant to the Proceedings, the Bonds are valid and binding general obligations of the State.
4. Interest on the Bonds is included in gross income of the owners thereof for federal income tax purposes. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers. We express no opinion regarding any such collateral consequences arising with respect to the Bonds. The opinion set forth in this paragraph is not intended or written by Bond Counsel to be used, and cannot be used by any person, for the purpose of avoiding tax penalties that may be imposed under U.S. tax laws. Such opinion is provided to support an offering of the Bonds, and accordingly is written in support of the promotion or marketing of the Bonds. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor concerning the potential tax consequences of an investment in the Bonds.
5. Interest on the Bonds is not exempt from State of Illinois income taxes.

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

In rendering this opinion, we have relied upon certifications of the State and certain other parties with respect to certain matters solely within their knowledge relating to the facilities financed with the Bonds, the application of proceeds of the Bonds and certain other matters pertinent to the status of the Bonds.

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

To ensure compliance with Treasury Circular 230, we are informing you that the advice contained in this opinion letter is not intended or written by Bond Counsel or any of its attorneys to be used, and it cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer.

Very truly yours,

APPENDIX C

BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

General. The Bonds will be available only in book entry form. DTC will act as the initial securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered bond certificates will be issued for the Bonds of each series and maturity, in the aggregate principal amount thereof, and will be deposited with DTC. Beneficial Owners (defined below) may own beneficial interests in the Bonds in the United States through DTCC and in Europe through Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and Euroclear Bank S.A./N.V. ("Euroclear"), directly if they are participants of such systems, or indirectly through organizations that are participants in such systems. Clearstream, Luxembourg and Euroclear will hold omnibus positions on behalf of their participants through customers securities accounts in Clearstream, Luxembourg's and Euroclear's names on the books of their respective depositories, which in turn will hold such positions in customers securities accounts in the depositories names on the books of 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, CLEARSTREAM, LUXEMBOURG, CLEARSTREAM, LUXEMBOURG PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS 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, CLEARSTREAM, LUXEMBOURG, CLEARSTREAM, LUXEMBOURG PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS 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, CLEARSTREAM, LUXEMBOURG, CLEARSTREAM, LUXEMBOURG PARTICIPANTS, EUROCLEAR, EUROCLEAR PARTICIPANTS 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, CLEARSTREAM, LUXEMBOURG, CLEARSTREAM, LUXEMBOURG PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, LUXEMBOURG, CLEARSTREAM, LUXEMBOURG PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS 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, CLEARSTREAM, LUXEMBOURG, CLEARSTREAM, LUXEMBOURG PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS 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, CLEARSTREAM, LUXEMBOURG AND EUROCLEAR AND THEIR BOOK ENTRY SYSTEMS ARE BASED ON INFORMATION FURNISHED BY DTC, CLEARSTREAM, LUXEMBOURG AND EUROCLEAR TO THE STATE. NO REPRESENTATION IS MADE HEREIN BY THE STATE, THE BOND REGISTRAR OR THE UNDERWRITERS 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. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Bonds”). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount of such maturity, and an additional certificate will be issued with respect to any remaining principal amount of such maturity.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge

of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. However, with respect to the optional redemption of Bonds as described in this Official Statement, the Bond Registrar is required to instruct DTC to select specific Bonds for redemption using the "pro rata" method described herein.

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but none of the State, the Bond Registrar and the Underwriters takes any responsibility for the accuracy thereof.

Clearstream, Luxembourg. Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the

need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of 36 currencies, including United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in over 30 countries through established depository and custodial relationships. Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier (“CSSF”) and the Banque Centrale du Luxembourg (“BCL”) which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg’s customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

Clearstream, Luxembourg’s U.S. customers are limited to securities brokers and dealers and banks. Currently, Clearstream, Luxembourg has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg, has established an electronic bridge with Euroclear as the Operator of the Euroclear system (the “Euroclear Operator”) in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

Euroclear. Euroclear holds securities and book entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear participants, and between Euroclear participants and participants of certain other securities intermediaries through electronic book entry changes in accounts of such participants or other securities intermediaries. Euroclear provides Euroclear participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations. Certain of the managers or underwriters for this offering, or other financial entities involved in this offering, may be Euroclear participants. Non-participants in the Euroclear system may hold and transfer book entry interests in the Bonds through accounts with a participant in the Euroclear system or any other securities intermediary that holds a book entry interest in the Bonds through one or more securities intermediaries standing between such other securities intermediary and Euroclear.

Holding and Trading Bonds on Clearstream, Luxembourg or Euroclear. Although Euroclear has agreed to the procedures provided below in order to facilitate transfers of securities among participants in the Euroclear system, and between Euroclear participants and participants of other intermediaries, it is under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time.

Investors electing to acquire Bonds through an account with Euroclear or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of new issues of securities. Bonds to be acquired against payment through an account with Euroclear will be credited to the securities clearance accounts of the respective Euroclear participants in the securities processing cycle for the business day following the settlement date for value as of the settlement date, if against payment.

Investors electing to acquire, hold or transfer Bonds through an account with Euroclear or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of secondary market transactions in securities.

Investors who are participants in the Euroclear system may acquire, hold or transfer interests in the Bonds by book entry to accounts with Euroclear. Investors who are not participants in the Euroclear system may acquire, hold or transfer interests in the Bonds by book entry to accounts with a securities intermediary who holds a book entry interest in the Bonds through accounts with Euroclear.

Investors that acquire, hold and transfer interests in the Bonds by book entry through accounts with Euroclear or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual Bonds.

Euroclear has advised as follows:

Under Belgian law, investors that are credited with securities on the records of Euroclear have a coproperty right in the fungible pool of interests in securities on deposit with Euroclear in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of Euroclear, Euroclear participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with Euroclear. If Euroclear did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all participants credited with such interests in securities on Euroclear's records, all participants having an amount of interests in securities of such type credited to their accounts with Euroclear would have the right under Belgian law to the return of their pro-rata share of the amount of interests in securities actually on deposit.

Under Belgian law, Euroclear is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records.

Initial Settlement; Distributions; Actions Upon Behalf of Owners. All of the Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream, Luxembourg and Euroclear may hold omnibus positions on behalf of their participants through customers securities accounts in Clearstream, Luxembourg's and/or Euroclear's names on the books of their respective U.S. Depository, which, in turn, holds such positions in customers securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream, Luxembourg and JPMorgan Chase Bank acts as depository for Euroclear (the "U.S. Depositories"). Holders of the Bonds may hold their Bonds through DTC (in the United States) or Clearstream, Luxembourg or Euroclear (in Europe) if they are participants of such systems, or directly through organizations that are participants in such systems. Investors electing to hold their Bonds through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional Euro bonds in registered form. Bonds will be credited to the securities custody accounts of Euroclear and Clearstream, Luxembourg holders on the business day following the settlement date against payment for value on the settlement date.

Distributions with respect to the Bonds held beneficially through Clearstream, Luxembourg will be credited to the cash accounts of Clearstream, Luxembourg customers in accordance with its rules and procedures, to the extent received by its U.S. Depository. Distributions with respect to the Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the terms and conditions governing the relationship between Euroclear and Euroclear participants, to the extent received by its U.S. Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream, Luxembourg or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an owner of the Bonds on behalf of a Clearstream, Luxembourg customer or Euroclear participant only in accordance with the relevant rules and procedures and subject to the U.S. Depository's ability to effect such actions on its behalf through DTC.

Secondary Market Trading. Secondary market trading between participants (other than U.S. Depositories) will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds. Secondary market trading between Euroclear participants and/or Clearstream, Luxembourg customers will be settled using the procedures applicable to conventional Euro bonds in same-day funds. When Bonds are to be transferred from the account of a participant (other than U.S. Depositories) to the account of a Euroclear participant or a Clearstream, Luxembourg customer, the purchaser must send instructions to the applicable U.S. Depository one business day before the settlement date. Euroclear or Clearstream,

Luxembourg, as the case may be, will instruct its U.S. Depository to receive the Bonds against payment. Its U.S. Depository will then make payment to the participants account against delivery of the Bonds. After settlement has been completed, the Bonds will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participants or Clearstream, Luxembourg customers accounts. Credit for the Bonds will appear on the next day (European time) and cash debit will be backvalued to, and the interest on the Bonds will accrue from the value date (which would be the preceding day when settlement occurs in New York), if settlement is not completed on the intended value date (*i.e.*, the trade fails), the Euroclear or Clearstream, Luxembourg cash debit will be valued instead as of the actual settlement date.

Euroclear participants and Clearstream, Luxembourg customers will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream, Luxembourg. Under this approach, they may take on credit exposure to Euroclear or Clearstream, Luxembourg until the Bonds are credited to their accounts one day later. As an alternative, if Euroclear or Clearstream, Luxembourg has extended a line of credit to them, participants/customers can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream, Luxembourg customers purchasing Bonds would incur overdraft charges for one day, assuming they cleared the overdraft when the Bonds were credited to their accounts. However, interest on the Bonds would accrue from the value date. Therefore, in many cases, the investment income on Bonds earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participants/customers particular cost of funds. Because the settlement is taking place during New York business hours, participants can employ their usual procedures for sending securities to the applicable U.S. Depository for the benefit of Euroclear participants or Clearstream, Luxembourg customers. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the participant, a cross-market transaction will settle no differently from a trade between two participants.

Due to time zone differences in their favor, Euroclear participants and Clearstream, Luxembourg customers may employ their customary procedure for transactions in which securities are to be transferred by the respective clearing system, through the applicable U.S. Depository to another participants. In these cases, Euroclear will instruct its U.S. Depository to credit the Bonds to the participants account against payment. The payment will then be reflected in the account of the Euroclear participant or Clearstream, Luxembourg customer the following business day, and receipt of the cash proceeds in the Euroclear participants or Clearstream, Luxembourg customers accounts will be backvalued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear participant or Clearstream, Luxembourg customer has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Euroclear participants or Clearstream, Luxembourg customers accounts would instead be valued as of the actual settlement date.

Procedures May Change. Although DTC, Clearstream, Luxembourg and Euroclear have agreed to these procedures in order to facilitate transfers of securities among DTC and its participants, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by any of them.

APPENDIX D

CONTINUING DISCLOSURE UNDERTAKING

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

ANNUAL FINANCIAL INFORMATION DISCLOSURE

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

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

“*Annual Financial Information*” means financial information and operating data of the type contained herein (i) in Tables 1 through 3 and 6 under the heading “State Financial Information”, and (ii) in Tables 7, 8, 11, 12 and 18 under the heading “Indebtedness.” Annual Financial Information exclusive of Audited Financial Statements will be provided through EMMA by 330 days after the last day of the State’s fiscal year, which is currently June 30 of each year.

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

MATERIAL EVENTS DISCLOSURE

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

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;
- Modifications to rights of security holders, if material;
- Bond calls, if material, and tender offers (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event);
- Defeasances;
- Release, substitution or sale of property securing repayment of the securities, if material;
- Rating changes;

Bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person 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 obligated person, 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 obligated person);

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

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

CONSEQUENCES OF FAILURE OF THE STATE TO PROVIDE INFORMATION

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

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

AMENDMENT; WAIVER

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

- (a) The amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the State, or type of business conducted;
- (b) The Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined by a party unaffiliated with the State (such as bond counsel).

TERMINATION OF UNDERTAKING

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

ADDITIONAL INFORMATION

Nothing in the Undertaking will be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of an Event, in addition to that which is required by the

Undertaking. If the State chooses to include any information from any document or notice of occurrence of an Event in addition to that which is specifically required by the Undertaking, the State will have no obligation under the Undertaking to update such information or include it in any future disclosure or notice of occurrence of an Event.

DISSEMINATION AGENT

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

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