State of Illinois
$480,000,000* General Obligation Bonds, Series of January 2016

Investor Presentation

December 30, 2015

*Preliminary, subject to change.

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The Preliminary Official Statement for this issue can be found at www.emma.com under CUSIP 452152

State of Illinois Financial Management Team

Tim Nuding, Director of the Governor’s Office of Management and Budget

- Appointed Director of the Governor’s Office of Management and Budget in January 2015
- 25 years of experience working in the State of Illinois government with focus on budget issues
- Most recently Chief of Staff to Illinois Senate Republicans

Kim Fowler, Chief Legal Counsel

- Appointed Chief Legal Counsel of the Governor’s Office of Management and Budget in January 2015
- 25 years of experience in State government, including serving on Governor’s legal staff from 1990-1998 and as Illinois’ debt director from 1999-2002

Alexis Sturm, Deputy Director for Debt, Capital and Revenue

- Appointed Deputy Director for Debt, Capital and Revenue in September 2015
- 18 years of experience in State government, including 11 years as senior staff for the Comptroller working on fiscal policy issues and fiscal/debt reporting and over 6 years in the Governor’s budget office working on debt management and revenue issues

Kelly Hutchinson, Director of Capital Markets

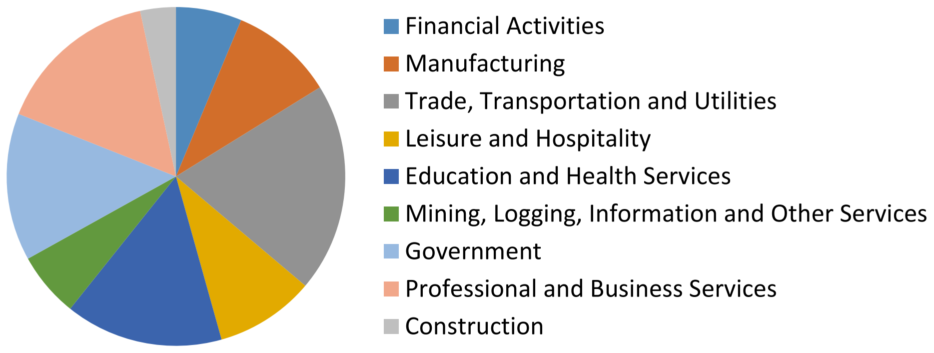
- Appointed Director of Capital Markets in November 2015
- Responsible for day-to-day operations of Illinois' debt program
- Formerly a Director at a nationally ranked financial advisory firm
- Over 10 years of experience in Public finance and over 5 years of experience in investment banking and corporate finance

Illinois is a State of Diversified Economic Strength

- Workforce composition mirrors that of the U.S.
- Per Capita Income remains above the national average

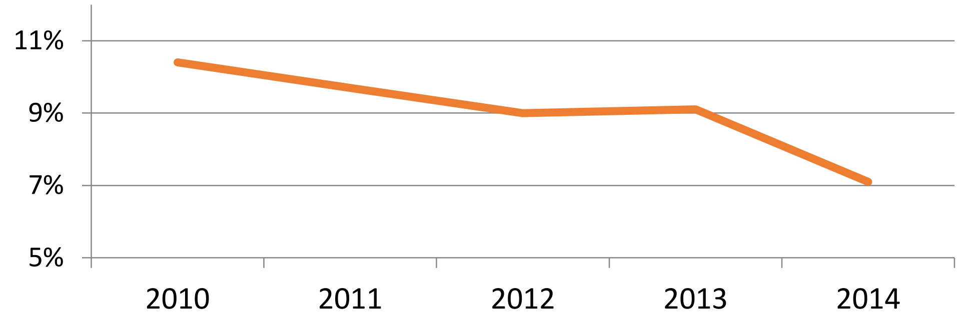
- Unemployment declining along with national trends
- Serves as a transportation hub and is home to 34 Fortune 500 headquarters

2014 Non-Agricultural Payroll Jobs by Industry



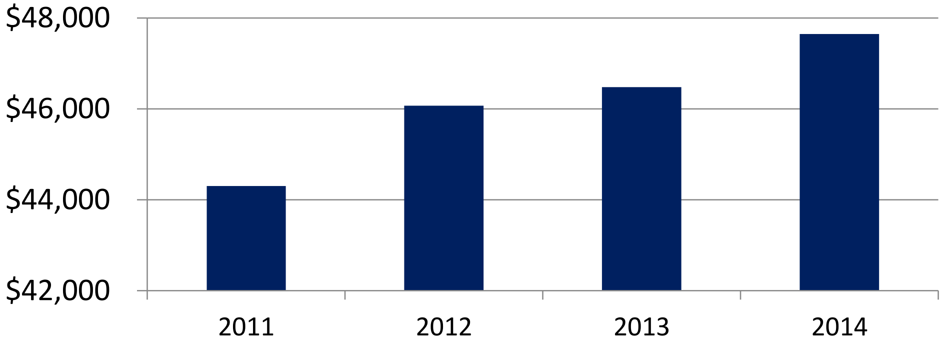
Source: U.S. Department of Labor, Bureau of Labor Statistics

Unemployment Rates (Not Seasonally Adjusted)



Source: U.S. Department of Labor, Bureau of Labor Statistics Data.

Per Capita Income



Source: U.S. Department of Commerce, Bureau of Economic Analysis, October, 2015.

A State of Headquarters

Source: Fortune.com/fourtune500

Illinois’ General Funds Revenue Structure

Illinois’ General Funds support the basic operations of Illinois’ State government and provide significant revenue towards the repayment of Illinois’ general obligation bonds

- The main revenue sources for General Funds are individual and corporate income taxes, sales taxes and federal revenues
- As of January 1, 2015 individual income tax rates are currently set at 3.75% and corporate income tax rates are currently set at 5.25%. The bulk of income taxes are deposited into the General Funds after a set aside to pay income tax refunds. FY15 General Funds revenues were impacted by a statutory decrease in the income tax rate
- The State sales tax rate is set at 6.25%, with the State keeping 5.0% and paying the remaining portion to local governments. Most of the sales tax is deposited into the General Funds after a few set asides into other State funds, including repayment of Build Illinois bonds
- Federal revenues into the General Funds primarily come from reimbursement of State payments for Medicaid services

General Funds Revenue History

$ Millions	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014	Actual FY 2015
Individual Income Taxes	11,225	15,512	16,538	16,642	15,433
Corporate Income Taxes	1,851	2,461	3,177	3,164	2,686
Sales Tax	6,833	7,226	7,355	7,676	8,030
All other State Sources	3,011	3,051	3,136	3,231	3,427
TOTAL STATE SOURCES	$ 22,920	$ 28,250	$ 30,206	$ 30,713	$ 29,576
Federal Sources	5,386	3,682	4,154	3,903	3,331
Transfers In[1]	2,181	1,369	1,953	2,152	2,981
TOTAL RESOURCES	$ 30,487	$ 33,301	$ 36,313	$ 36,768	$ 35,888

[1] Cash basis transfers and excludes transfers from the Budget Stabilizations Fund & Interfund borrowing in FY12 and FY15.

Fiscal Year 2015 Budget Provided Challenges

In early 2015, the newly elected Governor reviewed the State's Fiscal Year 2015 General Funds budget in preparation for development of the Fiscal Year 2016 Budget Proposal

- The Governor estimated that the General Funds would have an operational budgetary deficit of $1.6 billion absent changes to the budget plan
- As of January 1, 2015, the State's income tax rates declined due to an automatic statutory reduction
  - Individual income tax declined from 5.0% to 3.75%
  - Corporate income tax declined from 7.0% to 5.25%
- The reduction in rates was estimated to cause a half year decline of nearly $2 billion in Fiscal Year 2015, and was estimated to reduce annual income tax revenues by between $4-5 billion

FY15 General Funds Budget Actions

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

- $1,284 million in reallocation of excess fund balances in other State funds to the General Funds
- 2.25% reductions to many General Funds appropriation lines that yielded nearly $400 million in reduced spending authority for State agencies
- Executive Order 2015-08, under which some spending was reduced, reserves were established and some grants were suspended
- In June 2015, the Governor used expiring statutory authority provided for the year to interfund borrow $454 million from other State funds for the purpose of enhancing cash flow as the State entered Fiscal Year 2016 with no budget in place

FY15 Budget Results Better Than Forecasted

FY15 results reflect an estimated $1.03 billion improvement in the General Funds budgetary balance

As a result of the Spring 2015 budget actions, Illinois went from a projected operational deficit to an operational surplus of $1.031 billion

Revenues

- FY15 State General Funds base operating revenues and transfers in totaled $35.9 billion; including interfund borrowing, State General Funds revenues totaled $36.7 billion
- Individual income taxes exceeded forecasts by $588 million
- Sales taxes exceeded forecasts by $80 million
- Reallocations of excess fund balances of $1.3 billion and $454 million in interfund borrowing[1] contributed to the improvement

Expenditures

- FY15 operating expenditures and transfers out totaled $35.3 billion; including repayment of the Budget Stabilization Fund, $35.6 billion
- General Funds pension contributions totaled $6.01 billion
- Transfers to other State funds included $2.09 billion to the General Obligation Bond Retirement and Interest (GOBRI) Fund

[1] The $454 million in interfund borrowing must be repaid by 12/31/16

FY15 Actual Results	
$ millions	**FY15 Actuals**
Base Resources	
State Sources	$29,576
Transfers In	3,475*
Total State Sources	**$33,321**
Federal Sources	3,331
TOTAL RESOURCES	**$36,652**
Total Operating Budget	$30,763
Statutory Transfers Out	2,764*
Debt Service: Capital & Pension Bonds	2,094
Total Transfers	$4,858
TOTAL EXPENDITURES	**$35,621**
GENERAL FUND SURPLUS (DEFICIT)	**$1,031**

Source: Illinois Office of the Comptroller

*Budgetary basis transfers; transfers in adjusted for $35 million in transfers due to General Funds. Includes $275 million of transfers in/out from Budget Stabilization Fund.

Outstanding “Bills”

- Illinois reduced its General Funds Budget Basis Accounts Payable in FY15 by $538 million to $3.467 billion, the third successive year of reduction
- General Funds “Section 25” bills – essentially current year bills that are paid for with future year appropriations – decreased in FY13 and FY14
- Total Fiscal Year end payables and “Section 25” bills have totaled the following in recent years:

End of Fiscal Year General Funds Accounts Payable					
$ millions	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
General Funds Budget Basis Account Payable[1]	$4,976	$5,024	$4,142	$4,005	$3,467
Section 25 Liabilities –General Funds[2]	1,604	2,778	1,864	1,622	N/A
Total General Funds					
Accounts Payable	$6,580	$7,802	$6,006	$5,627	N/A
Section 25 Liabilities – Other State Funds	$237	$850	$489	$429	N/A

[1] This amount consists of General Funds Lapse Period Transactions as reported in the Traditional Budgetary Financial Report.
[2] Section 25 Liabilities are incurred in one Fiscal Year and payable from future Fiscal Year appropriations. This amount is the General Funds portion of Section 25 liabilities.

FY16 Budget Developments and Legislative Actions

As of today, Illinois has not enacted a full Fiscal Year 2016 Budget.

- In June 2015, certain parts of the FY16 budget were signed into law in P.A. 99-005 and P.A. 99-007, including the following:
  - Funding for elementary and secondary education
  - Capital appropriations for the Illinois Department of Transportation
- Additionally, in August 2015 other appropriations were enacted for the spending of certain federal revenues received by the State (P.A. 99-409)
- On December 7, 2015, signed legislation (P.A. 99-491) freed up $3 billion of State funds in order to provide essential public services
  - Enables the State to distribute motor fuel taxes, gambling and emergency phone service revenues owed to local governments, to pay out $1 billion to lottery winners, to pay a full year's debt service on State Civic Center Bonds and the State COPs, and to fund certain critical State operations costs

Current Status of FY16 Proposed Budget[1]

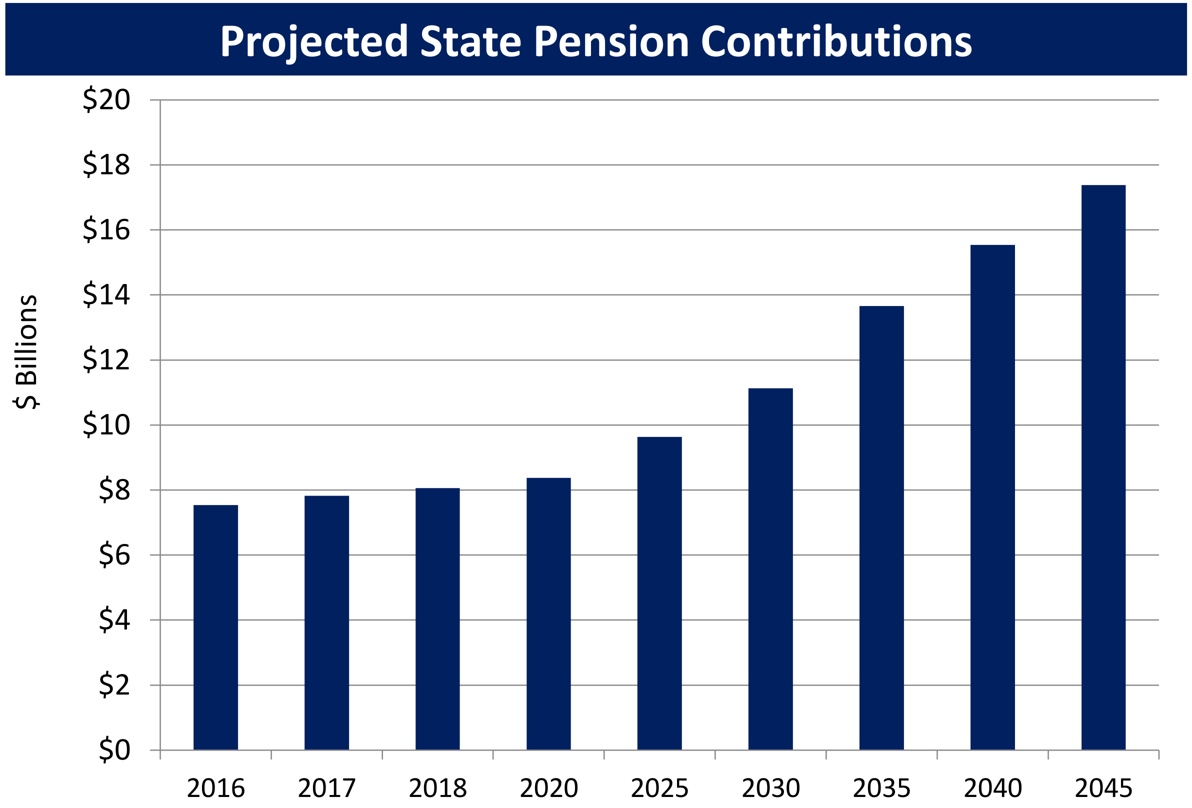
- As of November 30, 2015, FY16 estimated General Funds revenues are projected at approximately $32 billion, while expenditures cannot be fully calculated at this time
  - It is estimated that spending will exceed revenues by approximately $4-$5 billion absent action

  Certain appropriations were enacted and spending is occurring through statutory transfers, statutory continuing appropriations and court orders and consent decrees. Such spending includes:
  - General Obligation and Build Illinois bond debt service payments - <u>State is current on all payments</u>
  - Funding for elementary and secondary education
  - State payments to all State Retirement Systems
  - Medicaid and certain social service grant programs covered by consent decree
  - State employee payrolls by court order
- State agencies are only submitting vouchers for payment for items covered by appropriations, continuing appropriations or court orders/consent decrees
- As of November 30, 2015, the Comptroller was holding $3.9 billion in unpaid General Funds vouchers and pending transfers
- This includes bills on hand at the Comptroller's office and does not include bills that the agencies are holding. The Comptroller has estimated that approximately $3 billion in bills are on hold at the State agencies

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

Pension Update as of November 2015

- Actuarial Assets as of FY15 are $78.1 billion
- The State Retirement System, in aggregate, is currently funded at 40.9% as of FY15 based on the asset smoothing method and 41.9% using asset market value; individual percentages for each fund vary
- Despite a lack of the FY16 budget, continuing appropriations allow the Retirement Systems to continue to voucher payments for the State's contribution. The Comptroller is making payments as cash is available
- The FY17 pension appropriation from all State funds is estimated at just under $8 billion



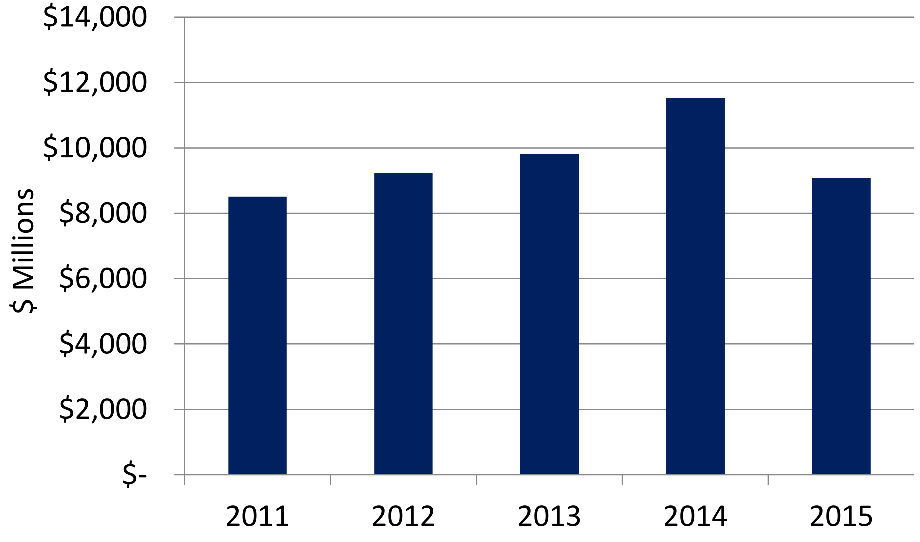
Security for State General Obligation Bonds

Security	• The full faith and credit of the State is pledged for the punctual payment of principal and interest under the Illinois General Obligation Bond Act ◦ The State can draw from all State funds in the State Treasury that are not restricted by law to another use if needed to pay debt service on GO bonds
Flow of Funds	• 1/12th of the next principal payment and 1/6th of the next interest payment are set aside every month in the GOBRI Fund
Appropriation of Funds	• The Bond Act requires the Governor to include an appropriation in each annual budget of moneys in an amount necessary to pay all principal and interest due • The Bond Act itself constitutes an irrevocable and continuing appropriation of all amounts necessary to pay principal and interest • Funds for principal and interest on all outstanding GO Bonds may be paid even in the absence of a State budget
Additional Protection under Illinois Constitution and State laws	• State law explicitly provides bondholders the remedy to sue the State to compel payment and to satisfy the State's bond obligations • The Illinois Constitution contains a "non-impairment" clause that prohibits action by the General Assembly that would, under contract law, impair the obligations of a contract between the State and its bondholders

The State's GOBRI Fund Cash Balances Are Strong

- Moneys in the GOBRI Fund are used only for the payment of principal and interest on all GO Bonds issued under the Bond Act, including short-term debt
- Approximately $2.1 billion in estimated transfers from General Funds to the GOBRI Fund is used for FY16 for debt service on GO bonds, with the balance expected to come from other State funds
  - The State transfers on average less than $200 million a month from the General Funds to GOBRI
  - General Funds Revenues available to make GRF debt service total approximately $2.5 billion a month on average and provide approximately 12.5x coverage the amount required to be transferred into GOBRI each month for General Funds share of debt service
- As of November 30, 2015, $1.38 billion was available in the GOBRI Fund

Fiscal Year All Fund Cash Balances[1]



[1] Does not included Federal Trust Funds.

Transfers to the GOBRI Fund ($ Millions)

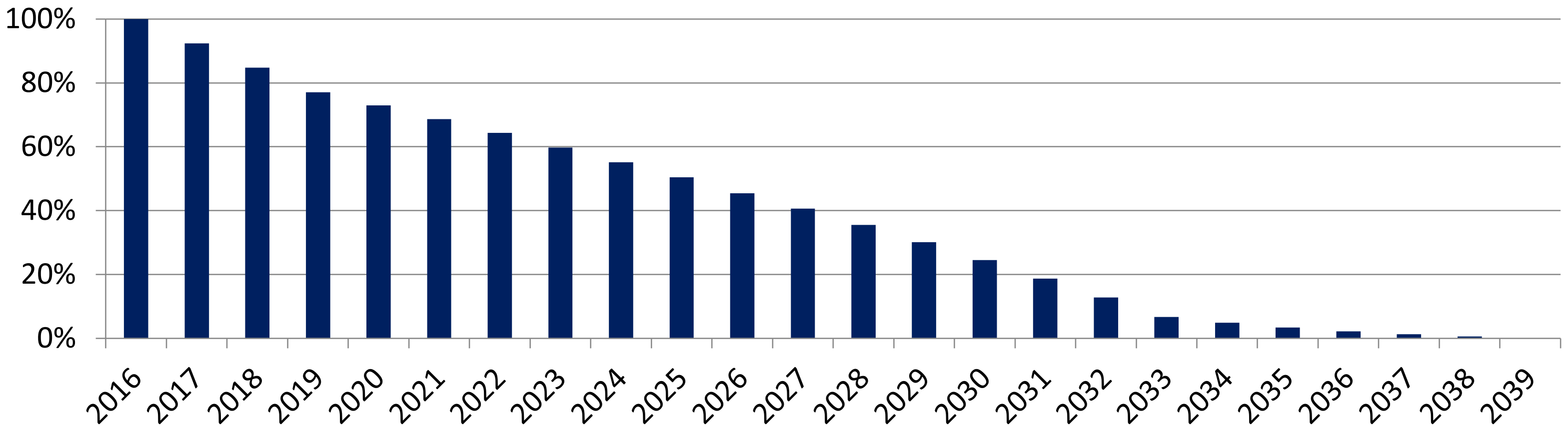
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
General Revenue Fund (GRF)					
Capital Bonds	$540.2	$452.8	$550.9	$573.3	$562.7
Pension Bonds	1,667.2	1,607.2	1,552.5	1,685.0	1,531.1
Other[1]	189.0	-	-	-	-
Road Fund	391.6	332.9	359.3	358.7	346.7
School Infrastructure Fund	203.7	215.9	209.5	208.8	192.8
Capital Projects Fund	172.8	240.8	310.1	344.2	388.0
TOTAL	**$3,164.6**	**$2,849.6**	**$2,982.3**	**$3,170.0**	**$3,021.4**

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

Statutory Limitations on Debt

- The General Obligation Bond Act requires that General Obligation Bonds have the following characteristics:
  - No more than 25 year final life
  - Level repayment of principal. If term bonds are structured into a bonds series, they must have mandatory sinking fund redemptions
    - This leads to repayment of debt every month, every year
    - Average life of all outstanding GO Bonds is approximately 9.2 years[1]
  - 25% of all bond sales in a fiscal year must be by competitive bid
- Unless waived in writing by the Treasurer and Comptroller, next fiscal year's debt service cannot exceed 7% of last year's General Funds/Road Fund appropriations[2]

The Percentage of Principal Outstanding at End of Each Fiscal Year

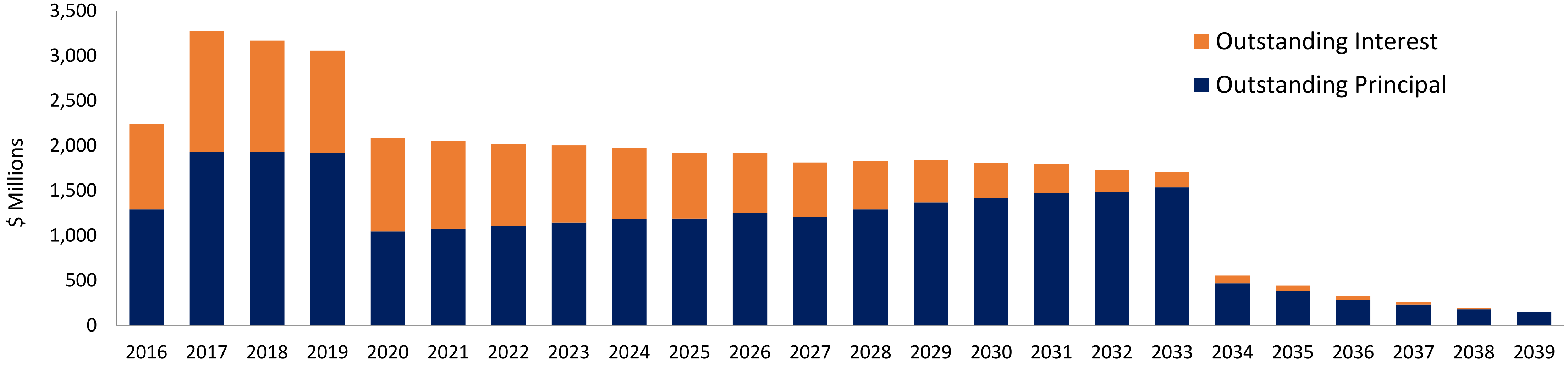


[1] Based on GO Bonds Maturity Schedule from the Preliminary Official Statement dated 12/30/15.

[2] Excludes Pension Obligation Bonds of 2011. General Fund appropriations include General Revenue Fund, Common School Fund, General Revenue Common School Special Account, the Education Assistance Fund and the Road Fund.

Current Outstanding GO Debt Service[1]

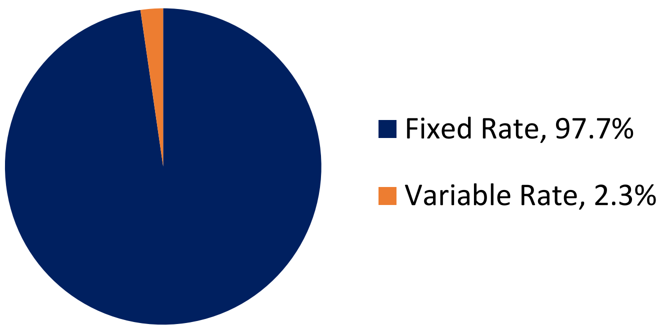
General Obligation: Fiscal Year Debt Service



Par Outstanding

Capital Improvement Bonds	$13,803,637,111
Pension Bonds	$12,700,000,000
Total	$26,503,637,111

Debt Mix



[1] As of November 30, 2015.

General Obligation Bonds, Series of January 2016

General Obligation Bonds, Series of January 2016 Financing Overview	
Estimated Size	$480,000,000
Use of Proceeds	To fund various capital projects and pay costs of issuance ▪ Transportation related projects - $400 million ▪ General State capital construction projects - $80 million
Tax Status	Tax-Exempt
Final Maturity	2041
Amortization	Level principal payments of ~$19.2 million
Interest Payment Dates	January 1 and July 1, commencing July 1, 2016
Redemption Features	Callable January 1, 2026
Mode	Fixed rate bonds
Sale Structure	Competitive
Security and Repayment Source	Direct general obligation of the State; full faith and credit pledge
Ratings(S&P/Fitch/Moody's)	A-/BBB+/Baa1
Bid Date	January 14, 2016
Closing	January 26, 2016
Structuring Note	Bidders have the option to designate and aggregate one or more maturities of the Bonds as no more than two term bonds, as provided in the Preliminary Official Statement

Year	Par ($mm)
2017	19,200,000
2018	19,200,000
2019	19,200,000
2020	19,200,000
2021	19,200,000
2022	19,200,000
2023	19,200,000
2024	19,200,000
2025	19,200,000
2026	19,200,000
2027	19,200,000
2028	19,200,000
2029	19,200,000
2030	19,200,000
2031	19,200,000
2032	19,200,000
2033	19,200,000
2034	19,200,000
2035	19,200,000
2036	19,200,000
2037	19,200,000
2038	19,200,000
2039	19,200,000
2040	19,200,000
2041	19,200,000

*Preliminary, subject to change.

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