Summary of the $480,000,000 General Obligation Bonds, Series of January 2016 Ratings Presentation dated December 18th

During the week of December 14, 2015, the State of Illinois provided ratings presentations for the issuance of $480,000,000 General Obligation Bonds, Series of January 2016 (the "Bonds") to Standard and Poor's Ratings Services, Moody's Investors Service, Inc. and Fitch Ratings Inc. The presentations contained a discussion of the following; Fiscal Year 2015 and 2016 Budgets, the State's debt profile, security for the bonds and plan of Finance. These items are explained in greater detail in the preliminary official statement and investor presentation for the Bonds posted on this website and at Munios.com. Standard & Poor's Ratings Services has assigned a rating of "A-" with a Negative Outlook to the Bonds, Moody's Investors Service, Inc. has assigned a rating of "Baa1" with a Negative Outlook to the Bonds, and Fitch Ratings Inc. has assigned a rating of "BBB+" with a Stable Outlook to the Bonds.

The slides in the ratings presentation are summarized below.

FY15 Budget Results Better Than Forecasted

- 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
- FY15 operating expenditures and transfers out totaled $35.3 billion; including repayment of the Budget Stabilization Fund, $35.6 billion
- The FY15 General Fund surplus was $1.031 billion

FY16 Budget Developments and Legislative Actions

- 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
    - State payments to the Teachers' Retirement System
    - 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 and to pay lottery winners

Current Status of FY16 Proposed Budget

- The full FY16 Budget has not been enacted
- As of November 30, 2015, FY16 estimated General Fund revenues are projected at $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 being taken by the General Assembly
- Certain appropriations were enacted and spending is occurring through statutory transfers, statutory continuing appropriations and court orders. 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
- Capital appropriations for Illinois Department of Transportation

- State agencies are only submitting vouchers for payment for items covered by appropriations, continuing appropriations or court orders
  - The backlog at the Comptroller's office totals $4.74 billion as of 12/16/15
  - This includes bills on hand at the Comptroller's office and does not include bills that the agencies are holding

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 $7.91 billion

Security Features of the January 2016 Bonds

- 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 which provides strong constitutional and statutory provisions for our bondholders
- The budget impasse highlights the importance of the protections that state has put into place through this act – protections include:
  - Advance set aside of debt service payments - The state funds debt service in advance by setting aside 1/12 of principal and 1/6 of interest every month in the general obligation retirement and interest fund – commonly known as GOBRI
  - The act itself constitutes an irrevocable and continuing appropriation for all GO debt service, and continuing authority and direction to the state treasurer and comptroller to make all necessary transfers from any and all revenues and funds of the state.
  - 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

- GOBRI funding is a 1st priority to the State
- Moneys in the GOBRI fund are used only for the payment of principal and interest on all the GO bonds issued under the bond act, including short term debt
- The State has strong liquidity to make debt service payments
- The state can access any legally available cash balances held at the treasury to pay debt service
- Revenues available to make debt service average approx. $2.5 billion a month and provide approximately 12.5x coverage of the on average less than $200 million required to be transferred into GOBRI each month for debt service.
- For the last five years, transfers to the GOBRI fund have totaled above $2.8 billion by the end of each fiscal year.
- As of November 30, 2015, $1.38 billion was available in the GOBRI Fund

Current outstanding GO Debt Service

- The state has a total of $26.2 billion of general obligation debt outstanding as of January 2, 2016.
- Only 2.3% of the portfolio is hedged variable rate debt

Variable Rate Bonds- Series 2003B

- The Series B of October 2003 Bonds have an outstanding principal amount of $600million
- The Bonds are supported by 6 direct pay Letters of Credit
- The Letters of Credit expire on November 27, 2016.
- As the State's rating on its general obligation bonds changes, fees of the Credit Providers and the interest rate on advances under the Letters of Credit also adjust.
- The State is party to five separate, but substantially identical, interest rate exchange agreements dated October 1, 2003 to hedge the variable rate on the Series 2003B Bonds to a synthetic fixed rate
    - The aggregate notional amount of these agreements is $600 million, which bear a fixed interest rate of 3.89%
    - The Agreement amounts amortize with the Series 2003B Bonds until their final maturity on October 1, 2033
    - A Counterparty may terminate its related Agreement if the rating on the State's general obligation bonds is withdrawn, suspended or rated below "BBB" by S&P or below "Baa2" by Moody's.
    - If the Agreements are terminated, the Series 2003B Bonds would continue to bear interest at a variable rate, and the State would be liable for a termination payment if the Agreements have a negative present value.
    - As of November 30, 2015, the estimated aggregate present valuation for all of the Agreements for the State is negative $143 million.

Deal Summary- General Obligation Bonds, Series January 2016

- Size: $480,000,000
- Competitive sale structure
- Use of Proceeds:
  - Transportation related projects: $400 million
  - General State capital construction projects: $80 million
- Bid Date is January 14, 2016
- Level principal payments of $19.2 million from 1/1/2017 to 1/1/2041
  - First interest payment: 7/1/2016
- The bonds are callable starting January 1, 2026
- Taxa status - Tax-exempt