**Remarketing – Not a New Issue** **RATINGS: See "Ratings"**

**Book-Entry Only**

**THIS REMARKETING CIRCULAR RELATES TO THE REMARKETING OF THE $600,000,000 STATE OF ILLINOIS VARIABLE RATE GENERAL OBLIGATION BONDS, SERIES B OF OCTOBER 2003 AS DESCRIBED HEREIN.**

*On October 29, 2003, Chapman and Cutler LLP and Burris, Wright, Slaughter & Tom, LLC (the "Initial Co-Bond Counsel") issued their opinions to the effect that interest on the Variable Rate General Obligation Bonds, Series B of October 2003 (the "Bonds") is not includable in gross income of the owners thereof for federal income tax purposes and is not an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended; however, such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Interest on the Bonds is not exempt from present State of Illinois income taxes. See Appendix C herein regarding the opinions of Initial Co-Bond Counsel and a description of other tax considerations as considered by Initial Co-Bond Counsel.*

*In the opinion of Mayer Brown LLP (the "2013 Bond Counsel"), the Transaction described under the caption "Introduction – Remarketing Plan", in and of itself, will not impair the exclusion of interest on the Bonds from gross income of the owners thereof for purposes of Federal income taxation to the extent such exclusion was otherwise available to interest on the Bonds. See Appendix C for the form of opinion to be delivered by 2013 Bond Counsel.*

# $600,000,000
# STATE OF ILLINOIS
## Variable Rate General Obligation Bonds
## Series B of October 2003
## Consisting of:

| $166,000,000 | $125,000,000 | $100,000,000 | $75,000,000 | $75,000,000 | $59,000,000 |
|---|---|---|---|---|---|
| Series 2003B-1 | Series 2003B-2 | Series 2003B-3 | Series 2003B-4 | Series 2003B-5 | Series 2003B-6 |
| CUSIP: 452152 TR2 | CUSIP: 452152 TT8 | CUSIP: 452152 TV3 | CUSIP: 452152 TX9 | CUSIP: 452152 TZ4 | CUSIP: 452152 UB5 |

**Date of Original Issue: October 29, 2003** **First Interest Payment Date: December 2, 2013**

**Date of Remarketing: November 27, 2013** **Maturity Date: October 1, 2033**

The State of Illinois, Variable Rate General Obligation Bonds, Series B of October 2003 (the "Bonds") were issued as general obligations bonds of the State of Illinois (the "State") on October 29, 2003. The Bonds are direct, general obligations of the State, secured by a pledge of its full faith and credit. The Bonds were issued under the General Obligation Bond Act of the State of Illinois, as amended, to provide funds to finance certain of the State's capital development, school construction and transportation projects and to pay costs of financing, including, but not limited to, the cost of issuance of the Bonds.

The Bonds will be remarketed in six subseries (each, a "Subseries") in the Weekly Rate Mode bearing interest at the applicable Weekly Rate until the Mode is changed as described under the caption "The Bonds – Conversions Between Modes." Each Subseries will be supported by separate letters of credit issued by (in the order of the Subseries of Bonds set forth above):

J.P.Morgan PNC BANK WELLS FARGO STATE STREET RBC Royal Bank of Canada Northern Trust

(each, a "Credit Facility"). Each such provider of a Credit Facility is called a "Credit Provider" and collectively are called the "Credit Providers". Each Credit Facility will expire, unless terminated or extended in accordance with the terms thereof, November 27, 2016. While in the Weekly Rate Mode, the Bonds are issuable in denominations of $100,000 or any integral multiple of $5,000 in excess of $100,000. The Bonds will be remarketed as fully registered bonds in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). The first Interest Payment Date following the remarketing will be December 2, 2013. The Bonds are subject to optional and mandatory redemption as set forth herein.

The Bonds may be converted to a Monthly Rate Mode, an Adjustable Rate Mode or an Auction Rate Mode. The Weekly Rate Mode and the Monthly Rate Mode are described herein. The Auction Rate Mode and the Adjustable Rate Mode are described in the Indenture and are not described herein. If any Bonds are converted to an Adjustable Rate Mode or an Auction Rate Mode, it is expected that the State will supplement this Remarketing Circular or deliver a new Official Statement or other disclosure document describing the Bonds bearing interest in an Adjustable Rate Mode or an Auction Rate Mode.

*The Bonds are reoffered when, as and if remarketed and received by the Remarketing Agent, subject to approval of legality by Mayer Brown LLP, Chicago, Illinois, (the "2013 Bond Counsel") and certain other conditions. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about November 27, 2013.*

November 27, 2013

# STATE OF ILLINOIS

**$600,000,000**
**State of Illinois**
**Variable Rate General Obligation Bonds,**
**Series B of October 2003**

**Pat Quinn**
***Governor***

**Jerome Stermer**
***Acting Director of the Governor's Office of Management and Budget***

**John Sinsheimer**
***Director of Capital Markets***

**Jessica Akey**
***Manager of Capital Markets***

## REGARDING THE USE OF THIS REMARKETING CIRCULAR

No dealer, broker, salesperson, or other person has been authorized by the State of Illinois or the Remarketing Agent or Acacia Financial Group, the Financial Advisor, to give any information or to make any representations other than those contained in this Remarketing Circular and, if given or made, such other information or representations must not be relied upon as having been authorized by the State. This Remarketing Circular 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 in this Remarketing Circular 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 Remarketing Circular nor any sale made under this Remarketing Circular shall under any circumstances create any implication that there has been no change since the date of this Remarketing Circular.

IN CONNECTION WITH THIS REMARKETING OF THE BONDS, THE REMARKETING AGENT 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 THIS REMARKETING, 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 Remarketing Circular 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 in this Remarketing Circular. This Remarketing Circular is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part for any other purposes.

References to web site addresses presented in this Remarketing Circular are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained in them are not incorporated into, and are not part of, this Remarketing Circular for purposes of, and as that term is defined in, SEC Rule 15c2-12.

### Forward-Looking Statements

This Remarketing Circular 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 in this Remarketing Circular. Investors are cautioned not to rely unduly on such forward-looking statements when evaluating the information presented in this Remarketing Circular.

## SUMMARY OF TERMS OF THE BONDS

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

| | |
|---|---|
| **The Remarketing** | $600,000,000 State of Illinois Variable Rate General Obligation Bonds, Series B of October 2003 (the "**Bonds**"), reoffered in six subseries (the "**Subseries**"). The Bonds mature on October 1, 2033. |
| **The Issuer** | State of Illinois. |
| **Form of Bonds; Denominations; Book-Entry System** | While in the Weekly Rate Mode, the Bonds are authorized as fully registered book entry bonds in the denomination of $100,000 or any integral of $5,000 in excess of $100,000. The Bonds will remain registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, and will continue to be held under DTC's global book entry system. |
| **Interest** | The Bonds will be remarketed in the Weekly Rate Mode. For so long as the Bonds are in the Weekly Rate Mode, the Bonds will bear interest at the Weekly Rate. Such interest is payable monthly on the first Business Day of each month. The first Interest Payment Date on the remarketed Bonds in the Weekly Rate Mode will be December 2, 2013. |
| **Optional Redemption** | The Bonds in the Weekly Rate Mode are subject to redemption prior to maturity, at the option of the State, in whole or in part in Authorized Denominations, on any Business Day, at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the redemption date, without premium. See "REDEMPTION – Optional and Mandatory Redemption." |
| **Mandatory Redemption** | The Bonds are subject to mandatory redemption prior to maturity, at a redemption price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, as provided in the Remarketing Circular. See "REDEMPTION – Optional and Mandatory Redemption." |

**Security for the Bonds**

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

**Irrevocable and Continuing Appropriation**

The Bond Act requires the Governor of the State (the "**Governor**") to include an appropriation in each annual State Budget of moneys in 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 bonds issued under the Bond Act and to pay and discharge the principal and redemption premium, if any, of such bonds falling due during such period.

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

The Bond Act itself constitutes an irrevocable and continuing appropriation of all amounts necessary to pay the principal of, interest on and redemption premium, if any, on outstanding bonds issued under the Bond Act, and the irrevocable and continuing authority for and direction to the Treasurer and the Comptroller to make the necessary transfers, as directed by the Governor, out of and disbursements from the revenues and funds of the State.

See "SECURITY."

**General Obligation Bond Retirement and Interest Fund**

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

**Additional Bonds**

The Bond Act authorizes the State to issue and sell direct, general obligations of the State, including the Bonds, for purposes other than refunding, in the currently authorized aggregate principal amount of $48,586,925,743. The Bond Act further authorizes the issuance of general obligation 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 general obligation bonds. The total amount of general obligation bonds outstanding, as of October 1, 2013, including the Bonds, is $27,861,139,171.

General obligation bonds may not be issued if, after their issuance, in the next State fiscal year after the issuance of such bonds, the amount of debt service on all then-outstanding general obligation bonds (other than general obligation bonds issued to pay pension obligations in 2010 and 2011) exceeds 7% of the aggregate appropriations from the Applicable Funds (as defined below) for the fiscal year immediately prior to the fiscal year of the issuance; however, the Illinois State Treasurer and Illinois State Comptroller, acting together, can waive this requirement. See "INTRODUCTION – Authority for Issuance."

See "INDEBTEDNESS – General Obligation Bonds" for a description of the general obligation bonds authorized, previously issued and outstanding under the Bond Act and prior bond acts.

**Tax Treatment of Interest**

Chapman and Cutler LLP and Burris, Wright, Slaughter & Tom, LLC (the "**Initial Co-Bond Counsel**") issued their opinion that the interest on the Bonds (i) is excluded from the gross income of their owners for federal income tax purposes and (ii) is not exempt from present State of Illinois income taxes. Mayer Brown LLP (the "**2013 Bond Counsel**") will issue an opinion that the Transaction described under "INTRODUCTION – Remarketing Plan" will not, in and of itself, impair the exclusion of interest on the Bonds from gross income of the owners thereof for purposes of Federal income taxation to the extent such exclusion was otherwise available to interest on the Bonds. See "TAX MATTERS" for a more complete discussion.

| | |
|---|---|
| **Ratings** | Moody's Investors Service ("**Moody's**") has assigned: (i) a long term rating of Aa1 and a short term rating of VMIG 1 to the Series 2003B-1 Bonds, (ii) a long term rating of Aa3 and a short term rating of VMIG 1 to the Series 2003B-2 Bonds, (iii) a long term rating of Aa1 and a short term rating of VMIG 1 to the Series 2003B-3 Bonds, (iv) a long term rating of Aa1 and a short term rating of VMIG 1 to the Series 2003B-4 Bonds, (v) a long term rating of Aa1 and a short term rating of VMIG 1 to the Series 2003B-5 Bonds and (vi) a long term rating of Aa2 and a short term rating of VMIG 1 to the Series 2003B-6 Bonds. Standard & Poor's Rating Services ("**S&P**") has assigned: (a) a long term rating of AAA and a short term rating of A-1 to the Series 2003B-1 Bonds, (b) a long term rating of AAA and a short term rating of A-1 to the Series 2003B-2 Bonds, (c) a long term rating of AAA and a short term rating of A-1+ to the Series 2003B-3 Bonds, (d) a long term rating of AAA and a short term rating of A-1+ to the Series 2003B-4 Bonds, (e) a long term rating of AAA and a short term rating of A-1+ to the Series 2003B-5 Bonds and (f) a long term rating of AAA and a short term rating of A-1+ to the Series 2003B-6 Bonds. See "RATINGS" for a more complete discussion. |
| **Miscellaneous** | Additional information regarding the Bonds, the Credit Facilities and this Remarketing Circular is available by contacting the Governor's Office of Management and Budget, 100 West Randolph Street, Suite 15-100, Chicago, Illinois 60601; telephone: (312)-814-7279. |

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# relating to
# $600,000,000
# State of Illinois
# Variable Rate General Obligation Bonds
# Series B of October 2003

## INTRODUCTION

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

This Remarketing Circular relates to the remarketing by the State of Illinois (the "**State**") of its $600,000,000 aggregate principal amount of Variable Rate General Obligation Bonds, Series B of October 2003 originally issued on October 29, 2003 (the "**Bonds**"). The Bonds constitute all currently outstanding Bonds originally issued on October 29, 2003. The Bonds shall be remarketed in six subseries (each, a "**Subseries**") supported by six separate irrevocable direct pay letters of credit (each, a "**Credit Facility**") issued by a separate bank (each, a "**Credit Provider**") as described below.

The Bonds were issued in accordance with an Indenture of Trust, dated as of October 1, 2003 (the "**Original Indenture**"), by and between the State and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "**Trustee**"). In connection with the remarketing of the Bonds, the Original Indenture shall be amended by a First Supplement to the Indenture of Trust, dated as of November 1, 2013 (the "**First Supplement**"; the Original Indenture, as amended by the First Supplement, and as it may be further amended or supplemented, the "**Indenture**"). By purchasing the Bonds in connection with the remarketing contemplated by this Remarketing Circular, each bondholder consents to the First Supplement and the execution thereof by the Trustee and the State.

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 third among the ten most populous states and fourteenth among all states. Illinois ranks third among all states in total cash receipts from crops, fifth 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 United States and the headquarters of many of the nation's major corporations and financial institutions. See "STATE OF ILLINOIS," "STATE FINANCIAL

INFORMATION" and "APPENDIX A – CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS" for sources of and further information regarding the State.

Certain capitalized terms used in this Remarketing Circular, unless otherwise defined, are defined in APPENDIX H – "GLOSSARY OF TERMS."

**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 defined below) issued under the Bond Act, including the Bonds, as it comes due and for the punctual payment of the principal of all GO Bonds at maturity, or on any earlier redemption date, and redemption premium, if any. These provisions are irrepealable until all GO Bonds issued under the Bond Act are paid in full as to both principal and interest. See "SECURITY."

**Tax Treatment of Interest**

Interest on the Bonds (i) is excluded from 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" for a more complete discussion.

**Authority for Issuance**

The Bonds were issued under the authority granted to the State under the Bond Act, which 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 $48,586,925,743. 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 as of October 1, 2013, including the Bonds, is $27,861,139,171. 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 GO Bonds authorized, previously issued and outstanding under the Bond Act and prior bond acts.

Amendments to the Bond Act, effective July 30, 2004 (the "**Amendments**"), placed certain restrictions on the issuance of GO Bonds. The Amendments include the following: (i) at all times during each fiscal year, at least 25% of the GO Bonds issued within a fiscal year must have been sold pursuant to notice of sale and public bid; (ii) other than certain refunding GO Bonds, 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 after the issuance of such GO Bonds, the amount of debt service on all then-outstanding GO Bonds (other than GO Bonds issued to pay pension obligations in 2010 and 2011) exceeds 7% of the aggregate appropriations from the General Revenue Fund, the Common School Fund, the General Revenue Common School Special Account Fund, the Education Assistance Fund and the Road Fund (collectively, the "**Applicable Funds**") for the fiscal year immediately prior to the fiscal year of the issuance; however, 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 Amendments were enacted following the issuance of the Bonds, and as such, the Bonds were not required to (and do not) comply with the restrictions contained in the Amendments.

**Remarketing Plan**

The Bonds will be subdivided, redesignated and remarketed in six Subseries of Bonds as follows: (i) $166,000,000 aggregate principal amount of the State of Illinois Variable Rate General Obligation Bonds, Series B-1 of October 2003 (the "**Series 2003B-1 Bonds**"), (ii) $125,000,000 aggregate principal amount of the State of Illinois Variable Rate General Obligation Bonds, Series B-2 of October 2003 (the "**Series 2003B-2 Bonds**"), (iii) $100,000,000 aggregate principal amount of the State of Illinois Variable Rate General Obligation Bonds, Series B-3 of October 2003 (the "**Series 2003B-3 Bonds**"), (iv) $75,000,000 aggregate principal amount of the State of Illinois Variable Rate General Obligation Bonds, Series B-4 of October 2003 (the "**Series 2003B-4 Bonds**"), (v) $75,000,000 aggregate principal amount of the State of Illinois Variable Rate General Obligation Bonds, Series B-5 of October 2003 (the "**Series 2003B-5 Bonds**"), and (vi) $59,000,000 aggregate principal amount of the State of Illinois Variable Rate General Obligation Bonds, Series B-6 of October 2003 (the "**Series 2003B-6 Bonds**").

Each Subseries of Bonds shall be supported by a separate letter of credit (each, a "**Credit Facility**") as follows: (i) JPMorgan Chase Bank, National Association (the "**Series 2003B-1 Bank**") shall provide a Credit Facility for the Series 2003B-1 Bonds; (ii) PNC Bank, National Association (the "**Series 2003B-2 Bank**") shall provide a Credit Facility for the Series 2003B-2 Bonds; (iii) Wells Fargo Bank, National Association (the "**Series 2003B-3 Bank**") shall provide a Credit Facility for the Series 2003B-3 Bonds; (iv) State Street Bank and Trust Company (the "**Series 2003B-4 Bank**") shall provide a Credit Facility for the Series 2003B-4 Bonds; (v) Royal Bank of Canada (the "**Series 2003B-5 Bank**") shall provide a Credit Facility for the Series 2003B-5 Bonds; and (vi) The Northern Trust Company (the "**Series 2003B-6 Bank**") shall provide a Credit Facility for the Series 2003B-6 Bonds. Each Credit Facility will expire (unless extended or terminated early in accordance with its terms) on November 27, 2016. See "CREDIT FACILITIES". Each of the Credit Facilities is a "Liquidity Facility" with respect to the respective Subseries of Bonds in accordance with the terms of the Indenture.

## THE BONDS

*The following is a summary of certain provisions of the Indenture to which reference is made for a complete statement of the provisions and contents of such document.*

*The following summary describes the terms of the Bonds only while the Bonds bear interest at the Weekly Rate or Monthly Rate Modes. Prospective purchasers of the Bonds should not rely on this summary if the Bonds are bearing interest at a rate other than the Weekly Rate or Monthly Rate Modes.*

**Description of the Bonds**

Each reoffered Subseries of Bonds initially will bear interest in the Weekly Rate Mode at the applicable Weekly Rate until the Mode is changed as described under the caption "THE BONDS – Conversions Between Modes." The Bonds may be converted to a Monthly Rate Mode, an Adjustable Rate Mode or an Auction Rate Mode. The Weekly Rate Mode and the Monthly Rate Mode are described below. The Auction Rate Mode and Adjustable Rate Mode are described in the Indenture and are not described herein.

The Bonds will mature on October 1, 2033, subject to optional prior redemption as described herein under "REDEMPTION" and subject to optional and mandatory tender for purchase as described herein under "TENDERS FOR BONDS."

The Bonds will be remarketed only as fully registered bonds and are issuable (i) while in a Weekly Rate Mode or Monthly Rate Mode, in denominations of $100,000 or any integral multiple of $5,000 in excess of $100,000, or (ii) while in an Adjustable Rate Mode, in denominations of $5,000 and integral multiples of $5,000 (each an "**Authorized Denomination**").

The Bonds were and will remain 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, redemption 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 E – GLOBAL BOOK-ENTRY SYSTEM."

**Summary of Interest Rate Modes**

Terms used herein are defined in APPENDIX H – GLOSSARY OF TERMS. The pertinent provisions of the Indenture relating to the determination of interest rates and the payment of interest, changes in interest Modes and rights of optional and mandatory tender for the Weekly Rate Mode and the Monthly Rate Mode relating are summarized on the following chart:

| | WEEKLY RATE MODE | MONTHLY RATE MODE |
|---|---|---|
| Interest Payment Date | First Business Day of each month; calculated on actual days elapsed over 365 or 366 day year. The first Interest Payment Date of the remarketed Bonds will be December 2, 2013. | First Business Day of each month; calculated on actual days elapsed over 365 or 366 day year |
| Interest Accrual | From Remarketing Date to and including the day before the first Interest Payment Date, and thereafter, from each Interest Payment Date to and including, the day before the next Interest Payment Date, or at Maturity | From the Monthly Rate Conversion Date commencing a Monthly Rate Period to and including the day before the first Interest Payment Date, and thereafter, from each Interest Payment Date to and including, the day before the next Interest Payment Date, or at Maturity |

| | WEEKLY RATE MODE | MONTHLY RATE MODE |
|---|---|---|
| Interest Period | From Remarketing Date (or a subsequent Weekly Rate Conversion Date) to the following Tuesday and thereafter, each period from Wednesday of each week to the following Tuesday, whether or not such days are Business Days, or at Maturity | From the Monthly Rate Conversion Date and thereafter, from each Monthly Rate Interest Payment Date to the day preceding the next Monthly Rate Interest Payment Date, or at Maturity |
| Record Date | The close of business on the Business Day next preceding the Interest Payment Date | The close of business on the Business Day next preceding the Interest Payment Date |
| Conversion to Different Mode and related Mandatory Tender Notice to Bondholders | Not later than 22 days preceding the Conversion Date | Not later than 22 days preceding the Conversion Date |
| Mandatory Tender Notice other than in connection with a Conversion | Not later than 20 days prior to a mandatory tender date | Not later than 20 days prior to a mandatory tender date |
| Optional Tender Notice | Irrevocable written Tender Notice to Trustee on any Business Day | Irrevocable written Tender Notice to Trustee on any Business Day |
| Optional Tender Date | A Business Day specified in Optional Tender Notice at least seven days after delivery of Optional Tender Notice | The Monthly Rate Interest Payment Date specified in Optional Tender Notice given at least three Business Days prior to such Monthly Rate Interest Payment Date |
| Rate Determination Date and Time | Not later than the Business Day immediately preceding the Weekly Interest Period | Not later than 12:00 p.m. on the Business Day immediately preceding the commencement of each Monthly Interest Period |

**Interest Rate Modes**

Each Subseries of Bonds will bear interest, when in the Weekly Rate Mode, at the Weekly Rate, and when in the Monthly Rate Mode, at the Monthly Rate. At no time will any Subseries of Bonds (other than Bank Bonds as defined below under the caption "CREDIT FACILITIES – Reimbursement Agreement") bear interest at a rate in excess of the Maximum Rate.

Interest Payment Dates will be (a) for each Bond in the Weekly Rate Mode or the Monthly Rate Mode, the first Business Day of each month during which each such Bonds are in the Weekly Rate Mode or the Monthly Rate Mode, as applicable, and (b) for each Bond, the Maturity Date thereof.

*Weekly Rate*. Each Bond in a Weekly Rate Mode shall bear interest (computed on the basis of a 365-day or 366-day year, as applicable, for the actual number of days in the period) at the Weekly Rate from the Remarketing Date or from each Weekly Rate Conversion Date to the earlier of the following Conversion Date or its Maturity. The Weekly Rate for each Weekly Interest Period, which rate is set and reset once per week, shall be the lowest rate of interest which will, in the sole judgment of the Remarketing Agent, having due regard for prevailing financial market conditions, permit the Bonds to be remarketed at par, plus accrued interest, on the first day of such Weekly Interest Period. Each determination of a Weekly Rate by the

Remarketing Agent shall be conclusive and binding upon the State, the Trustee, the Tender Agent, the applicable Credit Provider and the Bondholders. Notwithstanding the foregoing, if at any time the Remarketing Agent shall fail to determine a Weekly Rate as set forth above, then, until the Remarketing Agent shall next determine the Weekly Rate in such fashion, the Weekly Rate shall be the BMA Municipal Swap Index[1] in effect on the first day of the Weekly Rate Period. Notwithstanding the foregoing, the Weekly Rate shall not be more than the Maximum Rate. The Remarketing Agent shall determine and furnish to the Trustee by fax, by electronic mail or by any other readily accessible electronic means, the Weekly Rate for each Weekly Interest Period. The Remarketing Agent shall make such determination not later than the Business Day before the first day of the Weekly Rate Period. The interest on Bonds operating in the Weekly Rate Mode is payable on each Weekly Rate Interest Payment Date and shall accrue from the later of the Weekly Rate Conversion Date or the preceding Weekly Rate Interest Payment Date through and including the day before the Weekly Rate Interest Payment Date on which interest is to be paid. On the Business Day preceding each Weekly Rate Interest Payment Date, the Trustee shall furnish to the State and, if the Bonds are not held under a Book-Entry System, to the Tender Agent, the Weekly Rates applicable to the Bonds and to such Interest Payment Date. The first Weekly Rate Interest Payment Date on the remarketed Bonds will be December 2, 2013. Should any Bondholder or Beneficial Owner request such in writing, the Remarketing Agent shall also advise such Bondholder or Beneficial Owner of the Weekly Rate.

*Monthly Rate*. Each Bond in a Monthly Rate Mode shall bear interest (computed on the basis of a 365-day or 366-day year, as applicable, for the actual number of days in the period) at the Monthly Rate from each Monthly Rate Conversion Date to the day prior to the earlier of the day before the next Monthly Rate Interest Payment Date, a subsequent Conversion Date or its Maturity. The Monthly Rate for each Monthly Interest Period shall be the lowest rate of interest which will, in the sole judgment of the Remarketing Agent, having due regard for prevailing financial market conditions, permit the Bonds to be remarketed at par, plus accrued interest, on the first day of such Monthly Interest Period. Each determination of a Monthly Rate by the Remarketing Agent shall be conclusive and binding upon the State, the Trustee, the Tender Agent, the applicable Credit Provider and the Bondholders. Notwithstanding the foregoing, if at any time the Remarketing Agent shall fail to determine a Monthly Rate as set forth above, then, until the Remarketing Agent shall next determine the Monthly Rate in such fashion, the Monthly Rate for such period shall be deemed to be determined as the Monthly Rate then in effect. Notwithstanding the foregoing, the Monthly Rate shall not be more than the Maximum Rate. The Remarketing Agent shall determine and furnish to the Trustee by fax, by electronic mail or by any other readily accessible electronic means, the Monthly Rate for each Monthly Interest Period. Each such Monthly Rate shall be determined by the Remarketing Agent not later than 12:00 p.m., on the Business Day immediately preceding the commencement date of such period and shall be provided to the Trustee by the Remarketing Agent in writing by the close of business on that same day. The interest on Bonds operating in the Monthly Rate Mode is payable on each Monthly Rate Interest Payment Date and shall accrue from from the commencement date of such period through the last day thereof. On the Business Day preceding each Monthly

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[1] The State has selected the SIFMA Index as the replacement for the BMA Municipal Swap Index. See APPENDIX H – "Glossary of Terms."

Rate Interest Payment Date, the Trustee shall furnish to the State and, if the Bonds are not held under a Book-Entry System, to the Tender Agent, the Monthly Rate applicable to the Bonds and to such Interest Payment Date. Should any Bondholder or Beneficial Owner request such in writing, the Remarketing Agent shall also advise such Bondholder or Beneficial Owner of the Monthly Rate.

**Rate Periods and Modes**

All Bonds are not required to operate in the same Mode at the same time, and all Bonds within a particular Subseries of Bonds are not required to operate in the same Mode at the same time. The Modes are the Weekly Rate Mode, the Monthly Rate Mode, the Adjustable Rate Mode and the Auction Rate Mode. All Bonds in the Weekly Rate Mode within a particular Subseries of Bonds will bear interest at the same interest rate, and all Bonds in the Monthly Rate Mode within a particular Subseries of Bonds will bear interest at the same interest rate. Bonds operating in the Adjustable Rate Mode may bear interest at different rates for different Adjustable Rate Periods and at different rates for the same Adjustable Rate Period.

**Conversions Between Modes**

The Mode of any Bond may be converted from one Mode to another, and an Adjustable Rate Period of one duration may be renewed to an Adjustable Rate Period of the same or another duration, at the option of the State, if the State shall notify the Trustee, the Tender Agent, the Remarketing Agent and, if any, the applicable Credit Provider of its election to effect such a conversion and each other condition to any such conversion set forth in the Indenture has been satisfied. Bonds are subject to mandatory tender at the principal amount thereof on each Conversion Date. See "THE BONDS – Conversion Notice; Mandatory Tender." The State's Conversion Notice shall specify the date on which the Conversion Date will occur (which date shall be not sooner than 25 days after the date such notice is given to the Trustee, the Tender Agent, the Remarketing Agent and, if any, the applicable Credit Provider) and, if the conversion is to an Adjustable Rate Period or is a renewal of an Adjustable Rate Period, shall specify the term of the Adjustable Rate Period. No conversion from a Weekly Rate Mode or a Monthly Rate Mode to an Adjustable Rate Mode or an Auction Rate Mode or from an Adjustable Rate Mode or an Auction Rate Mode to a Weekly Rate Mode or a Monthly Rate Mode shall be effective for any Bonds unless the State shall have delivered with such notice a Favorable Bond Counsel Opinion. The Conversion Date shall be the date specified in the State notice; provided, that no conversion from the Adjustable Rate Mode shall be effective prior to the Business Day following the last day of the Adjustable Rate Period which is then in effect. In the event any condition precedent to conversion is not satisfied on or prior to the Conversion Date or if the State sends written notice of its election to cancel such conversion, such Bonds shall nonetheless be subject to mandatory tender on the Conversion Date and, upon such date, such Bonds shall automatically convert to the Weekly Rate Mode and bear interest at the Weekly Rate. Upon conversion from one Mode to another, if a Credit Facility is required under the Indenture, a Credit Facility shall be provided in the required amount of the Credit Facility.

No Bond shall be converted from one Mode to another Mode, if an Event of Default shall have occurred and be continuing under the Indenture.

**Conversion Notice; Mandatory Tender**

In general and except as noted, at least 22 days prior to each Conversion Date the Trustee shall give to each affected Bondholder notice by first class mail. The notice shall:

(i) state the Conversion Date;

(ii) describe the provisions of the Indenture relating to the mandatory tender and state that, on the Conversion Date, the related Bonds are subject to mandatory tender and purchase;

(iii) indicate that all Bondholders who fail to tender their Bonds for purchase on the mandatory tender date ("**Undelivered Bonds**") will nonetheless be deemed to have tendered their Bonds for purchase on such date;

(iv) state that any Bonds not delivered to the Tender Agent on or prior to the mandatory tender date, for which there has been irrevocably deposited in trust with the Trustee or the Tender Agent on or prior to the mandatory tender date available moneys sufficient to pay the purchase price of such Undelivered Bonds on the mandatory tender date, shall be deemed to have been so purchased at the purchase price, and such Bonds shall no longer be considered to be Outstanding for purposes of the Indenture and shall no longer be entitled to the benefits of the Indenture, except for the payment of the purchase price thereof (and no interest shall accrue thereon subsequent to the mandatory tender date); and

(v) state that while the Bonds are held under a Book-Entry System, Bonds need not be physically tendered on the mandatory tender date, and transfers of beneficial ownership interests will be effected by the Securities Depository in accordance with its rules and procedures.

**Credit Facility Requirements**

The State is required to maintain a Credit Facility for the purchase of the Bonds bearing interest at the Weekly Rate or Monthly Rate and which may be tendered for purchase pursuant to the terms of the Indenture ("**Tendered Bonds**"). The State is not required to maintain a Credit Facility for the purchase of Tendered Bonds during an Adjustable Rate Period.

The Required Amount of the Credit Facility shall be the aggregate principal amount of Bonds (other than Bank Bonds) outstanding in such Mode plus an amount equal to Adequate Interest Coverage. With respect to the Weekly Rate Mode or the Monthly Rate Mode, "**Adequate Interest Coverage**" shall mean the aggregate amount of interest which would accrue on all Outstanding Bonds in such Mode (other than Bank Bonds) at the Maximum Rate for a period of at least 35 days or such shorter period which the Rating Agencies shall have confirmed in writing to the Trustee will not result in a withdrawal, suspension, or lowering of any rating on the Bonds from that which would otherwise be stated as a result of a longer interest coverage period.

## Payment Terms

Payments on the Bonds and Swap Payments will be made by the Trustee from funds on deposit in the Bond Fund in accordance with the Indenture. Payments with respect to Bank Bonds shall be made in accordance with the provisions of the Credit Facility.

## Certain Bank Bond Provisions

Bank Bonds shall bear interest at a rate (not in excess of the Maximum Rate) computed as provided in the Credit Facility. Only the Bank Bonds shall bear interest at such rate.

# TENDERS FOR BONDS

## General

If a Credit Facility is not provided, funds for the purchase of Tendered Bonds must be provided by the State. Funds drawn under a Credit Facility may be used to pay the tender price of the applicable Subseries of Bonds for which such Credit Facility was provided, but may not be used to pay principal of or interest on the Bonds when due. Certain events of default permit termination of each Credit Facility pursuant to the terms of each Credit Facility. If a Credit Facility is unavailable for that reason or for another reason, the purchase price of Tendered Bonds must be paid by the State if remarketing proceeds are not sufficient. See "CREDIT FACILITIES – Consequences of Events of Default" and "CREDIT FACILITIES – Events of Default."

## Optional Tender

While Bonds are in the Weekly Rate Mode, any such Outstanding Bond or portion thereof in an Authorized Denomination (except any Bank Bond) shall be purchased on the demand of the Beneficial Owner thereof on any Business Day at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon to the date of purchase upon delivery (by telecopy or otherwise) on any Business Day to the Trustee of a written irrevocable notice, which will be effective upon receipt, which states: (i) the principal amount of such Bond (and the portion thereof to be tendered, if less than the full principal amount is to be tendered), (ii) the name, address and taxpayer identification number of such Beneficial Owner, (iii) payment instructions for the purchase price and (iv) the date on which such Bond shall be so purchased, which date shall be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Trustee. So long as the Book Entry System is in effect the Beneficial Owner shall effect delivery of such Bonds by causing its Direct Participant to transfer its interest in the Bonds equal to such Beneficial Owner's interest on the records of the Securities Depository to the Participant Account of the Trustee with the Securities Depository. When Bonds are in a Weekly Rate Mode and the Book-Entry System is not in effect, the Bondholder may tender such Bond (or portion thereof) by delivering a notice as described above (which shall include the certificate number of such Bond) and also deliver to the Tender Agent such Bond (with all necessary endorsements and guarantee of signature attached to such notice) by 10:30 A.M., New York, New York time on the Purchase Date.

While Bonds are in the Monthly Rate Mode, any such Outstanding Bond or portion thereof in an Authorized Documentation (except any Bank Bond) shall be purchased on the demand of the

Beneficial Owner thereof on any Monthly Rate Interest Payment Date at a price equal to 100% of the principal amount thereof upon delivery (by telecopy or otherwise), on any Business Day not less than three Business Days prior to the Monthly Rate Interest Payment Date to the Trustee a written irrevocable notice, which will be effective upon receipt, which states: (i) the principal amount of such Bond (and the portion thereof to be tendered, if less than the full principal amount is to be tendered), (ii) the name, address and taxpayer identification number of such Beneficial Owner and (iii) payment instructions for the purchase price. The Beneficial Owner shall effect delivery of such Bonds by causing its Direct Participant to transfer its interest in the Bonds equal to such Beneficial Owner's interest on the records of the Securities Depository to the Participant Account of the Trustee with the Securities Depository. When Bonds are in a Monthly Rate Mode and the Book-Entry System is not in effect, the Bondholder may tender such Bond (or portion thereof) by delivering a notice as described above (which shall include the certificate number of such Bond) and also deliver to the Tender Agent such Bond (with all necessary endorsements and guarantee of signature attached to such notice) by 10:30 A.M., New York, New York time on the Purchase Date.

**Mandatory Tenders**

Any Bond (other than Bank Bonds) shall be subject to mandatory tender by the Bondholder to the Trustee, as Tender Agent, at its Principal Office on each date described below:

(i) On each Conversion Date for such Bond;
(ii) On each Adjustable Rate Reset Date with respect to such Bond;
(iii) If a Liquidity Facility or Credit Facility is required for the particular Subseries of Bonds: (a) on the second Business Day prior to the Expiration Date of such Liquidity Facility or Credit Facility if the Trustee has not received an extension of such Liquidity Facility or Credit Facility; (b) on the second Business Day preceding the effective date of any Credit Facility replacing an existing Credit Facility or any Alternate Liquidity Facility replacing an existing Liquidity Facility; and (c) on the Business Day selected by the Trustee as the mandatory tender date where the Trustee has received written notice from a Credit Provider to the effect that an event of default has occurred under the Credit Facility and such Credit Provider is terminating its obligation to provide funds under such Credit Facility; provided, that the Business Day so selected by the Trustee shall be at least five calendar days prior to the date upon which such Credit Provider's obligation to purchase Bonds under the Credit Facility will expire pursuant to such notice.

The purchase price of Bonds subject to mandatory tender shall be 100% of the principal amount thereof, plus accrued interest to the date thereof. Not later than 20 days prior to a mandatory tender date described in clauses (ii) through (iii)(b) set forth above in this section and as soon as practicable in the case of clause (iii)(c) above, the Trustee shall mail notice to all Bondholders subject to mandatory tender stating that: (1) due to the occurrence of one of the events described above (which event shall be specified), such Bonds will be subject to mandatory tender on the mandatory tender date (which date shall be specified); (2) all such Bondholders who fail to tender their Bonds for purchase on the mandatory tender date will nonetheless be deemed to have tendered their Bonds for purchase on such date; (3) that any such Bonds not delivered to the Tender Agent on or prior to the mandatory tender date, for which there has been irrevocably deposited in trust with the Trustee or the Tender Agent on or prior to the mandatory tender date moneys sufficient to pay the purchase price of such Undelivered Bonds on the mandatory tender date, shall be deemed to have been so purchased at the purchase price, and such Bonds shall no longer be outstanding or entitled to the benefits of the Indenture, except for the payment of the purchase price thereof (and no interest shall accrue thereon subsequent to the mandatory tender date); and (4) that while the Bonds are held in the Book-Entry System, Bonds need not be physically tendered on the mandatory tender date, and transfers of beneficial ownership interests will be effected by the Securities Depository in accordance with its rules and procedures. With respect to mandatory purchases described in clause (i) set forth above in this section, such notice will be given as part of the notice of conversion. No failure on the part of the Trustee to give such notice shall affect the requirement that Bonds be tendered on the mandatory tender date. If moneys sufficient to pay the purchase price of such Bonds have been deposited with the Tender Agent on the mandatory tender date, Undelivered Bonds will be deemed to have been tendered for purchase on the mandatory tender date, and from such date will no longer be deemed to be Outstanding. Bondholders of such Bonds shall then have no rights or benefits under the Indenture other than to receive the purchase price for such Bonds upon surrender of such Bonds to the Tender Agent.

**Purchase of Tendered Bonds**

The Trustee is appointed as Tender Agent under the Indenture. The Tender Agent shall accept all Bonds properly tendered for purchase in accordance with the provisions of the Bonds and as set forth in the Indenture. The Indenture establishes a special trust fund designated as the "State of Illinois, Variable Rate General Obligation Bonds, Series B of October 2003 – Purchase Fund" (the "**Purchase Fund**"). Within the Purchase Fund there are separate "**Liquidity Facility Accounts**" for each Subseries of Bonds into which all money drawn on a Credit Facility will be deposited and separate "**Remarketing Proceeds Accounts**" for each Subseries of Bonds into which all remarketing proceeds for each applicable Subseries of Bonds will be deposited. The Tender Agent shall hold all moneys delivered to it for the purchase of Bonds in the Purchase Fund in trust, solely for the benefit of the Persons delivering such moneys until the Bonds purchased with such moneys have been delivered to or for the account of such Persons and thereafter solely for the benefit of the Persons entitled to such moneys. Moneys held in the Purchase Fund shall not be invested. The State authorizes and directs the Trustee to withdraw sufficient funds from the applicable account within the Purchase Fund to pay the purchase price of tendered Bonds as the same becomes due and payable. The purchase price of tendered Bonds, (1) if derived from purchasers, shall be paid on the tender date by the Trustee from moneys received from the purchaser of the remarketed Bonds, and (2) if derived from a Credit Facility or the Bond Fund, shall be paid on the tender date by the Trustee from such sources.

**Liquidity Facility; Alternate Liquidity Facility**

The Trustee shall have on deposit with it a Liquidity Facility that supports each Subseries of Bonds while such Bonds are in the Weekly Rate Mode or the Monthly Rate Mode either through retention of an existing Credit Facility or through the delivery of an Alternate Liquidity Facility. The State covenants not to convert the Bonds to a Mode requiring a Credit Facility or Liquidity Facility unless such Bonds will be supported by a Credit Facility or Liquidity Facility either through retention of an existing Credit Facility or through the delivery of an Alternate Liquidity

Facility. "**Alternate Liquidity Facility**" means any standby bond purchase agreement or any bank bond purchase agreement, letter of credit, line of credit, surety bond, revolving credit facility, bond insurance policy or other agreement or instrument under which any Person (other than the State) undertakes to pay or provide funds to pay the purchase price of Bonds (including any outstanding Bank Bonds) in the Required Amount of the Liquidity Facility (or beneficial interests therein) delivered to and received by the Trustee (i) replacing a then existing Liquidity Facility, (ii) accompanied by written evidence from the Rating Agencies indicating that the Rating Agencies have reviewed the Alternate Liquidity Facility and stating what rating the Bonds will bear after the substitution of the Alternate Liquidity Facility and whether that new rating constitutes a reduction of the then current rating on the Bonds, (iii) accompanied by an opinion of counsel to such Liquidity Provider, acceptable to the Trustee, the Remarketing Agent and the State, that the facility is valid and enforceable as against such provider in accordance with its terms subject to usual exceptions concerning bankruptcy and similar laws and enforcement of equitable remedies and (iv) a Favorable Bond Counsel Opinion. The State shall notify the Trustee, the Remarketing Agent and the applicable Credit Provider in accordance with the Credit Facility, of its intention to deliver an Alternate Liquidity Facility not less than 30 days prior to the delivery of such Alternate Liquidity Facility. The State may, in its sole discretion, elect to provide security for the payment of principal of and interest on the Bonds in the form of a Credit Facility delivered to the Trustee, provided, however, that the State also delivers to the Trustee the items enumerated in clauses (ii), (iii), and (iv) above. At the option of the State, any such Credit Facility may also secure the payment of premium, if any, on the Bonds. The State may elect to provide a Credit Facility to secure Bonds in one Mode without also securing Bonds in each Mode by the same or another Credit Facility.

**Remarketing of Tendered Bonds; Payment of Purchase Price**

The Remarketing Agent shall use its best efforts to remarket tendered Bonds of which it has received notice of tender from the Tender Agent (or Beneficial Owners, as applicable), at a price equal to 100% of the principal amount thereof plus accrued interest to the purchase date. Such remarketing shall be made in accordance with and subject to the conditions of the provisions of the Remarketing Agreement. Bonds which have been duly tendered for purchase and which have not been remarketed shall be purchased on the tender date with funds provided under the Credit Facility, if any, and from the Bond Fund; provided, however, if remarketing proceeds are insufficient: (i) during any period the Bonds are not supported by a Credit Facility, if any, or (ii) if the applicable Credit Provider shall fail in its obligation to provide for the purchase price of tendered Bonds, then such Bonds will be purchased by the State on the tender date. Upon receipt of a duly tendered written notice of an optional tender of Bonds, the Tender Agent shall notify in writing the Remarketing Agent, the State, the Trustee and the applicable Credit Provider, if any, of the principal amount of Bonds tendered and the date fixed for purchase of the tendered Bonds. When in a Mode requiring a Credit Facility, prior to 11:30 A.M. on any purchase date (whether optional or mandatory), the Trustee shall call upon the applicable Credit Provider to provide funds in an amount, not in excess of the Required Amount of the Credit Facility, equal to the purchase price of all Bonds to be purchased on such purchase date, less the amount of remarketing proceeds of which the Trustee has notice were deposited with the Tender Agent by 11:00 A.M. on such date (said net sum being the "**Net Purchase Amount**"). Any further amounts required for any reason shall be drawn from the moneys on deposit in the Bond Fund or be paid by moneys deposited by the State into the Bond Fund by the State Payment Time.

Anything in the Indenture to the contrary notwithstanding, there shall be no obligation of the Remarketing Agent to remarket Bonds (or beneficial interests therein) (1) if there shall have occurred and be continuing an Event of Default under the Indenture or (2) if there is no Credit Facility in effect that supports Bonds (or beneficial interests therein) in a Mode and period for which required. In the event Bonds (or beneficial interests therein) are required to be tendered for purchase due to the Expiration Date of a Credit Facility, such Bonds (or beneficial interests therein) shall not be remarketed unless remarketed in a Mode and period for which no Credit Facility is required. In the event that the Bonds (or beneficial interests therein) are required to be tendered on a Business Day selected by the Trustee because the Trustee has received written notice from the applicable Credit Provider indicating that an event of default has occurred under the Credit Facility and the applicable Credit Provider is terminating its obligation under the Credit Facility, such Bonds (or beneficial interests therein) shall not be remarketed unless and until an effective Alternate Liquidity Facility has been delivered to the Trustee. In no event shall Bank Bonds (or beneficial interests therein) be remarketed unless the applicable Credit Provider has reinstated, or will simultaneously reinstate, the amount available for which payment may be demanded under the Credit Facility to an amount sufficient to purchase Bonds at a price up to the Required Amount of the Credit Facility for such Bonds (or beneficial interests therein).

Any Bond optionally tendered for purchase after the date on which such Bond has been selected for redemption or the Trustee has notified the Bondholders of pendency of a conversion of the interest rate Mode of such Bonds shall not be remarketed unless the purchaser has been notified by the Trustee of the redemption or the conversion, as applicable. Any Bond which has been tendered and not remarketed for more than 30 days may not be remarketed until the Trustee and the Remarketing Agent have received a Favorable Bond Counsel Opinion with respect to such remarketing.

**Funds for Purchase Price of Tendered Bonds**

On the date Bonds are to be purchased pursuant to the optional or mandatory tender provisions of the Indenture, the Tender Agent shall deliver the purchase price to the tendering Bondholder, but only from the funds listed below (the "**Funds for Purchase**"), in the order of priority indicated:

A. From the Remarketing Proceeds Account, the proceeds of the sale of such Bonds which have been remarketed by the Remarketing Agent to any person other than the State;

B. Moneys in the Bond Fund to the amount of accrued interest;

C. If applicable, from the applicable Liquidity Facility Account, such moneys demanded under the Credit Facility up to the Net Purchase Amount less any funds available in the Bond Fund for payment of accrued interest; and

D. Moneys in the Bond Fund.

**Delivery of Purchased Bonds**

The Tender Agent shall make available by 4:00 p.m. on the purchase date of any tendered Bonds (whether such tender was optional or mandatory), at its Principal Office, Bonds which have been purchased with moneys described in clause (A) above in the section entitled "TENDERS FOR BONDS – Funds for Purchase Price of Tendered Bonds," for receipt by the Remarketing Agent. Bonds so purchased shall be registered in the manner directed by the Remarketing Agent and delivered to the Remarketing Agent for redelivery to the purchasers thereof. Bonds purchased with moneys described in clause (C) above in the section entitled "TENDERS FOR BONDS – Funds for Purchase Price of Tendered Bonds" shall be registered in the name of the applicable Credit Provider or its designee as directed by such Credit Provider indicating their status as Bank Bonds. Any Bonds purchased with moneys described in clause (D) above in the section entitled "TENDERS FOR BONDS – Funds for Purchase Price of Tendered Bond" shall be registered in the name of the State and delivered to the State. So long as the Bonds are held under a Book-Entry System, delivery of Bonds will be effected by transfers of beneficial ownership of the Bonds to the persons indicated above pursuant to its rules and procedures established by the Securities Depository.

Provided there is no Event of Default under the Indenture, the Remarketing Agent shall use its best efforts to remarket Bank Bonds in accordance with the Remarketing Agreement.

## REDEMPTION

### Optional and Mandatory Redemption

*Optional Redemption during Weekly Rate Mode.* Bonds in the Weekly Rate Mode shall be subject to optional redemption, in whole or in part in Authorized Denominations, on any Business Day. Such redemption shall be at the direction of the State, upon at least 35 days' prior written notice from the State to the Trustee, the applicable Credit Provider and the Remarketing Agent, and shall be at a redemption price equal to 100% of the aggregate principal amount of the Bonds to be redeemed, plus accrued interest thereon to the redemption date, without premium.

*Optional Redemption during Monthly Rate Mode*. Bonds in the Monthly Rate Mode shall be subject to optional redemption, in whole or in part in Authorized Denominations, on any Business Day. Such redemption shall be at the direction of the State, upon at least 35 days' prior written notice from the State to the Trustee, the applicable Credit Provider and the Remarketing Agent, and shall be at a redemption price equal to 100% of the aggregate principal amount of the Bonds to be redeemed, plus accrued interest thereon to the redemption date, without premium.

*Optional Redemption and Mandatory Redemption of Bank Bonds*. Bank Bonds are subject to optional redemption in whole or in part in Authorized Denominations at any time. The Bank Bonds may be subject to a covenant by the State to exercise its right of optional redemption. The Bank Bonds shall be subject to mandatory redemption on each Bank Bond Redemption Date as provided in the Credit Facility.

*Mandatory Redemption*. The Bonds are also subject to redemption prior to maturity at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, on October 1 of each of the years and in the principal amounts below. Bonds so redeemed prior to maturity shall be redeemed proportionally amongst each Subseries of Bonds (subject to Authorized Denominations), based on the aggregate principal amount of each such Subseries.

| YEAR OF MANDATORY REDEMPTION | PRINCIPAL AMOUNT TO BE REDEEMED |
|---|---|
| 2020 | $32,500,000 |
| 2021 | 66,300,000 |
| 2022 | 79,500,000 |
| 2023 | 64,700,000 |
| 2024 | 18,400,000 |
| 2025 | 18,400,000 |
| 2026 | 30,800,000 |
| 2027 | 51,300,000 |
| 2028 | 98,200,000 |
| 2029 | 41,800,000 |
| 2030 | 31,400,000 |
| 2031 | 7,500,000 |
| 2032 | 11,300,000 |
| 2033 (maturity) | 47,900,000 |

The principal amounts of Bonds to be mandatorily redeemed in each year may be reduced through the earlier optional redemption thereof, with any partial optional redemptions of such Bonds credited against future mandatory redemption requirements in such order of the mandatory redemption dates as the State may determine. In addition, on or prior to the 60th day preceding any mandatory redemption date, the Trustee may, and if directed by the State shall, purchase Bonds required to be retired on such mandatory redemption date. Any such Bonds so purchased shall be cancelled and the principal amount thereof shall be credited against the mandatory redemption required on such next mandatory redemption date.

**Notice of Redemption for Bonds**

The Trustee shall cause notice of redemption to be sent by first class mail, postage prepaid, to the Tender Agent, the Remarketing Agent, the Market Agent, the Auction Agent, the State, the Bondholder of each Bond to be redeemed and, if any, the applicable Credit Provider. Such notice shall be given not less than 30 days prior to the date of redemption for Bonds, however, notice for Bank Bonds may be given pursuant to different requirements if the Credit Facility requires such. In addition, if the Bonds are not then held under a Book-Entry System, such notice shall also be given not less than two Business Days before the redemption notice described in the preceding sentence, by registered, certified or overnight mail or by facsimile transmission, promptly confirmed in writing, to all registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds and to one or more national information services that disseminate notices of redemption of obligations such as the Bonds. Neither the failure to give any such notice nor any defect in any notice so mailed shall affect the sufficiency or the validity of any proceedings for the redemption of the Bonds. The redemption notice shall identify the Bonds or portions thereof to be redeemed and shall state (i) the date of the notice and the redemption date; (ii) the redemption price; (iii) the original date of execution and delivery of the Bonds to be redeemed; (iv) the rate of interest borne by the Bonds to be redeemed; (v) the date of Stated Maturity of the Bonds; (vi) the numbers and CUSIP numbers of the Bonds to be redeemed; (vii) that the redemption price of any Bond is payable only upon the surrender of the Bond to the Trustee at its designated corporate trust office; (viii) the address at which the Bonds must be surrendered; (ix) that interest on the Bonds called for redemption ceases to accrue on the redemption date provided that on such date moneys are on deposit in the Bond Fund sufficient to pay the redemption price of the Bonds in full; and (x) such additional descriptive information identifying the Bonds to be redeemed as may be deemed appropriate by the Trustee to effect the redemption. Any notice of optional redemption may also state (and shall state, if the State shall so direct) that the redemption is conditioned on receipt of moneys for such redemption by the Trustee on or prior to the redemption date; if such moneys are not received, the redemption of the Bonds for which notice was given shall not be made. Notwithstanding anything to the contrary herein, notice of redemption of Bank Bonds shall be given as provided in the Reimbursement Agreement. If on any redemption date moneys sufficient to pay in full the redemption price of the Bonds called for redemption have been deposited with the Trustee and shall be available to be utilized to pay the redemption price of such Bonds, such Bonds shall no longer be secured by or be deemed to be Outstanding under the Indenture and interest shall not continue to accrue on such Bonds after the redemption date.

### Partial Redemption for Bonds

Any partial redemption of Bonds shall be made only in Authorized Denominations. If fewer than all of the Bonds shall be called for redemption, the Trustee shall first select Bank Bonds for redemption and shall second select Bonds tendered for purchase on the date fixed for redemption. Each Bond shall be considered separate Bonds in the minimum Authorized Denominations for purposes of selecting the Bonds to be redeemed. Subject to the provisions of the Bonds with respect to the Book-Entry System, if any Bond shall be called for redemption only in part, then the Bondholder, upon surrender of such Bond to the Trustee for payment, shall be entitled to receive a new Bond or Bonds in the aggregate principal amount of the unredeemed balance of the principal amount of such Bond, without charge. If the Bondholder of any Bond which is called for redemption only in part shall fail to present such Bond to the Trustee for payment and exchange as aforesaid, such part of the Bond shall, nevertheless, become due and payable on the date fixed for redemption, and to such extent such Bond shall no longer be deemed to be Outstanding for purposes of the Indenture. Notwithstanding the foregoing, if the Bonds are held under a Book-Entry System at the time of a partial redemption of the Bonds, beneficial ownership interests in the Bonds shall be selected for redemption in accordance with the rules and procedures established by the Securities Depository.

## 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 redemption premium, if any. The Bond Act provides that the sections of the Bond Act making such pledge are irrepealable 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 Review."

**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 issued under the Bond Act and to pay and discharge the principal and redemption 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 to make appropriations annually to pay the principal of, interest on and redemption premium, if any, on outstanding GO Bonds issued under the Bond Act from the GOBRI Fund. Upon delivery of the Bonds, the Bond Act required the Comptroller to compute and certify to the Treasurer the total amount of principal of, interest on and redemption premium, if any, on the Bonds that will be payable in order to retire such Bonds and the amount of principal of, interest on and redemption premium, if any, on such Bonds that will be payable on each payment date during the then current and each succeeding fiscal year. Such certification was made at the time of the original issuance of the Bonds.

On or before the last day of each month, the Bond Act requires the Treasurer and Comptroller to transfer from the General Revenue Fund to the GOBRI Fund an amount sufficient to pay the aggregate of the principal of, interest on and redemption premium, if any, on GO Bonds issued under the Bond Act payable by their terms on the next payment date divided by the number of full calendar months between the date of such GO Bonds and the first such payment date, and thereafter, divided by the number of months between each succeeding payment date after the first payment date. The formula described above shall apply: (i) pursuant to the Bond Act for transfers from the Road Fund to the GOBRI Fund for GO Bonds issued under Section 4(a) of the Bond Act; (ii) pursuant to the State Finance Act and the Bond Act for transfers from the School Infrastructure Fund and the General Revenue Fund to the GOBRI Fund for GO Bonds issued under to Section 5(e) of the Bond Act for school improvement projects; (iii) and pursuant to the State Finance Act for transfers from the Capital Projects Fund to the GOBRI Fund for all GO Bonds issued pursuant to the bonding authorization under the Illinois Jobs Now! capital program. This transfer of moneys is not required if moneys in the GOBRI Fund are more than the amount otherwise to be transferred as described above, and if the Governor or his authorized representative notifies the Treasurer and the Comptroller of such fact in writing. Historical fund transfers to GOBRI are further detailed under "INDEBTEDNESS –Transfers to the GOBRI Fund for Payment of Debt Service."

If for any reason there are insufficient funds in the General Revenue Fund, or with respect to GO Bonds issued under Section 4(a) of the Bond Act for highway and surface transportation purposes (or bonds issued to refund bonds issued for such purposes) in the Road Fund established pursuant to Section 5.42 of the State Finance Act, 30 ILCS 105/1 et. seq. (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 redemption 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.

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 GO 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, or obligations the principal of and interest on which are guaranteed by the United States, 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, or obligations the principal of and interest on which are guaranteed by the United States. Earnings received from such investments are paid into the GOBRI Fund.

## CREDIT FACILITIES

### General

The following is a summary of certain provisions of the Credit Facilities. The Credit Facilities securing the separate Subseries of the Bonds will be issued pursuant to a Letter of Credit and Reimbursement Agreement dated as of November 1, 2013 (as it may be amended or modified, the "**Reimbursement Agreement**"), by and among the State, JPMorgan Chase Bank, National Association, as administrative agent (the "**Administrative Agent**") and as a Credit Provider, PNC Bank, National Association, as a Credit Provider, Wells Fargo Bank, National Association, as a Credit Provider, State Street Bank and Trust Company, as a Credit Provider, Royal Bank of Canada, as a Credit Provider, and The Northern Trust Company, as a Credit Provider. Capitalized terms used under this heading "Credit Facilities" and not otherwise defined in this Remarketing Circular shall have the meaning provided for such terms in the Reimbursement Agreement.

**The terms and provisions of each of the Credit Facilities are substantially identical. Each Credit Facility, however, provides security only for the Subseries of the Bonds identified**

**therein (as described on the front cover) and does not provide security for any other Subseries of Bonds. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of each of the Credit Facilities and the Reimbursement Agreement, to which reference is made hereby. Included in Appendices F-1, F-2, F-3, F-4, F-5 and F-6 to this Remarketing Circular is certain information with respect to each of the Credit Providers. Prospective purchasers of a Subseries of Bonds should review the information provided by the related Credit Provider with respect to such Subseries.**

**The Credit Facilities**

As security for the related Subseries of Bonds identified on the front cover, each Credit Provider will issue its Credit Facility in favor of The Bank of New York Mellon Trust Company, N.A., as Trustee, pursuant to the Reimbursement Agreement. The Credit Facilities will be in effect upon the remarketing of the Bonds. In general, the Credit Facilities provide that the Bond Trustee will deliver all draw requests with respect to the related Subseries of Bonds to the related Credit Provider, and that reimbursement for draws will be made by the State to the related Credit Provider.

Each Credit Facility will be an irrevocable obligation of the related Credit Provider to pay to the Trustee (i) upon request and in accordance with the terms thereof, amounts sufficient to pay the principal amount of and up to 49 days' accrued interest (at an assumed maximum annual interest rate of 12%) on the related Subseries of Bonds when due, whether at the stated maturity thereof or upon acceleration or call for redemption, and (ii) upon request and in accordance with the terms thereof, amounts sufficient to pay the purchase price of any Bonds of the related Subseries tendered for purchase and not remarketed.

A Credit Provider's obligation under its respective Credit Facility will be reduced by the amount of any drawing thereunder, subject, in certain cases, to reinstatement as described below. The amount available to be drawn under a Credit Facility at any particular time (the "Available Amount") shall be the Stated Amount of such Credit Facility from time to time (i) less the amount of all reductions pursuant to drawings occurring since the later of the date of issuance of such Credit Facility and the effective date of the last reduction in the Stated Amount, (ii) plus the amount of all reinstatements as below provided, likewise occurring since the later of the date of issuance of such Credit Facility and the effective date of the last reduction in the Stated Amount.

The Available Amount of each Credit Facility will be reduced automatically by the amount of any drawing thereunder; provided, however, that a drawing by the Trustee solely to pay interest on the Bonds on an interest payment date with respect to the related Subseries of the Bonds shall be automatically reinstated effective on the 6th calendar day after the date the related Credit Provider honors such drawing, unless the Trustee shall have received written notice from the related Credit Provider not later than 11:00 a.m., New York City time, on the fifth (5th) calendar day from the date of such Credit Provider's honoring such drawing, stating that an Event of Default under the terms of the Reimbursement Agreement has occurred, that the Available Amount shall not be reinstated and that such Credit Facility shall terminate ten (10) days after the Trustee's receipt of such notice. Also, to the extent the Available Amount is reduced as contemplated in the preceding sentence due to payment by the related Credit Provider of the purchase price of a tendered Bond, the Available Amount will be automatically reinstated, concurrently with the receipt by such Credit Provider of (i) written notice from the Trustee that the Trustee has been advised by the State or the Remarketing Agent that such Credit Provider had been repaid for amounts drawn under the related Credit Facility pursuant to the drawings pertaining to such purchase price and (ii) payment in immediately available funds of the principal of and accrued interest on Bank Bonds in connection with the remarketing thereof, by an amount equal to such payment attributable to the reimbursement of the principal and interest drawings on the related Credit Facility to which such payment relates.

Each Credit Facility will expire on the earliest of (i) November 27, 2016 (or if such day is not a Business Day, on the immediately preceding Business Day), (ii) the date on which the related Credit Provider receives notice from the Trustee that either (A) all of the outstanding Bonds of such Subseries were converted to Bonds bearing interest in an Adjustable Rate Mode or an Auction Rate Mode, (B) all of the outstanding Bonds of such Subseries have been paid or redeemed, (C) an Alternate Liquidity Facility or substitute Credit Facility has been issued to replace such Credit Facility and has become effective following the mandatory tender of the Bonds of such Subseries pursuant to the Indenture, or (D) the related Credit Provider has honored the final drawing available to be made under such Credit Facility which is not subject to reinstatement, (iii) the tenth (10th) day following the date of receipt by the Trustee of notice from the related Credit Provider that an Event of Default (as defined in the Reimbursement Agreement and referenced below under the heading "Reimbursement Agreement") under the terms of the Reimbursement Agreement has occurred and directing the Trustee to cause pursuant to the Indenture the mandatory tender of all Bonds of such Subseries currently outstanding, and (iv) the date on which such Credit Facility is surrendered by the Trustee to the related Credit Provider for cancellation.

**The Reimbursement Agreement**

Under the Reimbursement Agreement, the State is obligated to reimburse the Credit Providers for all amounts drawn under the Credit Facilities, together with interest on all such amounts. The State also agrees to pay to each of the Credit Providers a periodic fee for issuing or maintaining the Credit Facility with respect to each such Subseries of Bonds. The Reimbursement Agreement contains various covenants on the part of the State, including, among other provisions, covenants: (a) to deliver various financial and other reports to the Credit Providers on a periodic basis with respect to the State; (b) to deliver to the Credit Providers notices of defaults or other events or developments, financial or otherwise, which reasonably could materially adversely affect the State's operations, properties or affairs or the ability of the State to perform its obligations under the Reimbursement Agreement; and (c) to maintain the excludability of interest on the Bonds from the gross income of the holders thereof for purposes of Federal income taxation under the Internal Revenue Code. Any and all of such covenants may be amended, waived or modified at any time by and between the Credit Providers and the State without the consent of the Trustee or the holders of the Bonds. Neither the Trustee nor the holders of the Bonds are third party beneficiaries of or under, or are in any way entitled to rely on, the Reimbursement Agreement or the covenants of the State contained therein.

The occurrence and continuance of any one or more of the following events shall be an Event of Default under the Reimbursement Agreement:

(a) payment of any obligations under the Reimbursement Agreement, including, without limitation, payment of the Bank Bonds when demand thereon shall be made and of any other amount of principal of or interest on the Bank Bonds, and of any fees payable pursuant to the Reimbursement Agreement or related fee letter among the State, the Administrative Agent and the Credit Providers, shall not be made when the same shall become due and payable; or

(b) any representation or warranty made by the State in the Reimbursement Agreement or in any compliance certificate delivered pursuant to or in connection therewith shall prove to have been incorrect in any material respect when made or deemed made; or

(c) the State shall default in the due and punctual payment of amounts payable under the Indenture; or

(d) the State shall fail to pay when due (after giving effect to any applicable cure periods) any principal of or interest on any Material Debt (defined in the Reimbursement Agreement to mean the Bonds or any other bonds, notes or other indebtedness which are secured by the full faith and credit of the State in accordance with Article IX, Section 9 of the Illinois Constitution); or

(e) default in the due observance or performance of certain material covenants of the State contained in the Reimbursement Agreement;

(f) default in the due observance or performance by the State of any term, covenant or agreement (other than those described in (e) above) set forth in the Reimbursement Agreement and the continuance of such default for 30 days after the occurrence thereof; or

(g) the State shall become insolvent or admit in writing its inability to pay its debts as they mature or shall declare a moratorium on the payment of its debts or apply for, consent to or acquiesce in the appointment of a trustee or receiver for itself or any part of its property, or shall take any action to authorize or effect any of the foregoing, or in the absence of any such application, consent or acquiescence, a trustee or receiver shall be appointed for it or for a substantial part of its property or revenues and shall not be discharged within a period of sixty (60) days; or all, or any substantial part, of the property of the State shall be condemned, seized, or otherwise appropriated; or

(h) (i) the Reimbursement Agreement, the related fee letter, the Indenture, or the Bonds or any provision thereof, in each case, relating to the obligation of the State to make payments on the Bonds (including Bank Bonds) or any GO Debt (defined in the Reimbursement Agreement to mean any bonds, notes or other indebtedness which are secured by the full faith and credit of the State in accordance with Article IX, Section 9 of the Illinois Constitution) or the security therefor shall, at any time for any reason, cease to be valid and binding on the State or shall be declared null and void or its validity or enforceability shall be contested by the State, in a judicial proceeding or any official action, or any material provision of the Bond Act shall be declared null and void by any appellate court of the State; or (ii) (A) the State repudiates or otherwise denies, in writing, in a judicial or administrative proceeding that it has any further liability or obligation under the Reimbursement Agreement or with respect to the Bonds, (B) the

State shall have taken or permitted to be taken any action, or the State has duly enacted any statute, which would materially adversely affect the enforceability of the Bonds or (C) the State contests, in a judicial or administrative proceeding, the validity or enforceability of any material provision of the Reimbursement Agreement, the Bonds or any other Related Document (defined in the Reimbursement Agreement to mean the Reimbursement Agreement, the related fee letter, the Credit Facilities, the custody agreements pertaining to Bank Bonds, the Indenture, the Remarketing Agreement, this Remarketing Circular, any letter of credit extension request and any exhibits, instruments or agreements relating thereto, as the same may be amended from time to time in accordance with their respective terms and the terms thereof) relating to or otherwise affecting State's obligation to pay the principal of or interest on any Bonds; or

(i) entry of filing of any final and non-appealable judgment, writ or warrant of attachment or of any similar process in an amount in excess of $50,000,000 against the State or against any of its property and failure of the State to vacate, bond or stay such judgment, writ, warrant of attachment or other process for a period of 30 days or failure to pay or satisfy such judgment within 180 days or as otherwise required by such judgment, writ or warrant of attachment.

Upon the occurrence of an Event of Default under the Reimbursement Agreement, the Administrative Agent, on behalf of the Credit Providers may (and, upon written direction of the required percentage of Credit Providers, shall direct each Credit Provider to), at the same or different times, so long as such Event of Default shall not have been remedied, proceed to enforce all remedies available to it under the Reimbursement Agreement and under the Related Documents and applicable law and in equity, including, without limitation:

(a) Give written notice of such Event of Default to the State, the Trustee and Remarketing Agent stating that each of the Credit Facilities shall terminate ten (10) days after such notice is received by the Trustee and directing that the Bonds be called for mandatory tender pursuant to the Indenture.

(b) Give written notice of the occurrence of an Event of Default to the State and the Trustee and exercise any rights and remedies available to the Credit Providers at law, equity or under the Indenture.

Following such notice of termination of the Credit Facilities, the Administrative Agent shall have no further responsibilities under the Reimbursement Agreement and the Credit Providers shall be solely responsible for exercising such rights and remedies and taking such actions as may be available to each of them (or any of them) by law or under the Reimbursement Agreement or under any Related Document or otherwise.

For information regarding the Credit Providers, see Appendices F-1, F-2, F-3, F-4, F-5 and F-6 to this Remarketing Circular. Prospective purchasers of a Subseries of Bonds should review the information provided by the related Credit Provider. The information provided in such appendices has been provided solely by the applicable Credit Provider and is believed to be reliable. This information has not been verified independently by the State or the Remarketing Agent. The State and the Remarketing Agent make no representation whatsoever as to the accuracy, adequacy or completeness of such information.

## REMARKETING AGREEMENT

Barclay's Capital, Inc., New York, New York, has been appointed the Remarketing Agent under the Indenture and the Remarketing Agreement. The State shall, within 15 days of the resignation or removal of the Remarketing Agent, appoint any successor Remarketing Agent for the Bonds, subject to the conditions set forth in the Indenture. Any successor Remarketing Agent shall designate to the Trustee, the Tender Agent, and the Credit Providers its Principal Office and signify its acceptance of the duties and obligations imposed upon it under the Indenture by a written instrument of acceptance delivered to the State, the Credit Providers, and the Trustee (with a copy thereof mailed by certified mail to each Bondholder) under which the Remarketing Agent will agree particularly to (A) use its best efforts to remarket any Bond tendered or deemed to be tendered for purchase in accord with the terms of the Indenture, (B) keep such books and records as shall be consistent with prudent industry practice and any remarketing agreement and to make the information contained in such books and records available to the State and the Trustee at all reasonable times, and (C) determine the rates under the various Modes as required in the Indenture. Nothing in the Indenture obligates the Remarketing Agent to remarket Bank Bonds unless the Remarketing Agreement provides therefor. In the event that the State fails to appoint a Remarketing Agent or in the event that the Remarketing Agent shall resign or be removed or be dissolved or if the property or affairs of the Remarketing Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the State shall not have appointed its successor as Remarketing Agent, the Trustee shall ipso facto be deemed to be the Remarketing Agent for the purposes of accepting Bonds that have been tendered for purchase and determining the interest rate on the Bonds in accordance with the Indenture until the appointment of a successor Remarketing Agent by the State; provided, however, that the Trustee shall not be required to remarket the Bonds, or to determine the interest rate on the Bonds except in the manner provided in Section 2.02 of the Indenture. The Remarketing Agent will not be entitled to any compensation from the State, the Trustee or the Tender Agent or have any claim or rights with respect to any property, rights or interests constituting a part of the Trust Estate or otherwise held under the Indenture, but must make separate arrangements with the State for compensation.

Each successor Remarketing Agent shall (i) be a member in good standing of the National Association of Securities Dealers, Inc., (ii) be authorized by law to perform all the duties imposed upon it by the Indenture and (iii) have knowledge and experience in the remarketing of tax-exempt variable rate instruments and securities such as the Bonds. A Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 30 days' written notice to the State, the Tender Agent, the Credit Providers and the Trustee (with a copy thereof mailed by certified mail to each of the Bondholders). A Remarketing Agent (whether initial or successor) may be removed at any time at the direction of the State by an instrument signed by the State and filed at least 30 days prior to such removal with the Remarketing Agent and with the Trustee.

## SPECIAL CONSIDERATIONS RELATING TO THE REMARKETING AGENT

*The Remarketing Agent Is Paid by the State.* The responsibilities of Barclays Capital Inc. (the "**Remarketing Agent**") include determining the interest rates for the Bonds from time to time and remarketing Bonds that are subject to optional or mandatory purchase, subject to the terms of the Remarketing Agreement, all as further described in this Remarketing Circular. The Remarketing Agent is appointed pursuant to the Indenture and is paid by the State for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

*The Remarketing Agent Routinely Purchases Bonds for Its Own Account*. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and obligations similar to the Bonds and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (*i.e.,* because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, if it does so, it may cease doing so at any time without notice. If the Remarketing Agent ceases to purchase the Bonds, it may be necessary for the Trustee to draw on the Credit Facility for the purchase of such Bonds. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent in connection with an optional or mandatory tender or otherwise may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

*Bonds May Be Offered at Different Prices on Any Date Including a Date on Which an Interest Rate Is Determined.* Pursuant to the Remarketing Agreement, the Remarketing Agent is required to use its best efforts to solicit purchases of the Bonds, for a price of 100% of the principal amount thereof at a rate of up to the Maximum Rate and without regard to the Bank Rate from time to time in effect under any of the Credit Facilities, of Bonds (including Bank Bonds) or beneficial interests therein, from investors which customarily purchase municipal obligations, the interest on which is excludible from gross income for federal income tax purposes. The Remarketing Agent is also required to determine the applicable rate of interest that, in its sole judgment, taking into account prevailing financial market conditions, is the minimum interest rate per annum necessary to sell the Bonds in a secondary market sale at a price of par on such date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). The Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the date the applicable rate is determined, at a discount to par to some investors.

*The Ability to Sell the Bonds Other Than Through Tender Process May Be Limited.* The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice. The Remarketing Agent may require that all tenders be processed only as required under the Indenture with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds through the Trustee in accordance with the tender process described herein.

*Under Certain Circumstances, the Remarketing Agent May Resign or Cease Remarketing the Bonds Without a Successor Being Named.* Under certain circumstances, the Remarketing Agent may have the ability to resign or cease its remarketing efforts without a successor having been named, subject to the terms of the Remarketing Agreement and the Indenture. In such an event, the interest rate will be determined in accordance with the provisions of the Indenture as described under "THE BONDS—Interest Rate Modes" above.

## THE SWAP TRANSACTION

Simultaneously with the delivery of the Bonds, the State entered into five separate, but substantially identical, interest rate exchange agreements (collectively, the "**Swap Transactions**") to convert the variable rate to a synthetic fixed rate. See INDEBTEDNESS – Interest Rate Exchange Agreements. The Swap Transactions have an aggregate notional amount of $600 million and bear a fixed rate of interest of 3.89%.

## STATE OF ILLINOIS

### Organization

The State is formally organized according to executive, legislative and judicial functions. The Governor is the chief executive of the State and is generally responsible for the administration of the Executive Branch of the State other than the offices of other constitutionally-elected officials. The other constitutionally elected officials of the Executive Branch include the Lieutenant Governor, the Attorney General, the Secretary of State, the Comptroller and the Treasurer. The Auditor General is a constitutional officer appointed and confirmed by the Senate.

The Illinois Constitution provides that all elected officials of the Executive Branch hold office for four-year terms. The State's current elected constitutional officials are Governor Pat Quinn, Lieutenant Governor Sheila Simon, Attorney General Lisa Madigan, Secretary of State Jesse White, Comptroller Judy Baar Topinka and Treasurer Dan Rutherford. Pursuant to the Illinois Constitution, these officials were elected at a general election in November 2010, and took office on January 10, 2011. The elected constitutional officers are each elected to serve a four-year term.

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. Pursuant to Illinois law, the election of all members of the Senate and House of Representatives was held in

November, 2012. Members of the House of Representatives were elected to serve two-year terms, while members of the Senate were elected to serve staggered two-year/four-year terms.

The Judicial Branch is composed of the Supreme Court, the Appellate Courts and the Circuit Courts. Pursuant to Illinois law, judicial elections were held in November, 2012.

Approximately 90% of State employees are covered by collective bargaining agreements. All collective bargaining agreements expired on June 30, 2012. The State is currently operating under the terms of a successor collective bargaining agreement with the American Federation of State, County and Municipal Employees (which represents a large majority of those State employees covered by a collective bargaining agreement) with a three-year stated term (through June 30, 2015) that has been negotiated, executed and ratified by the union membership, and expired contracts with other bargaining units. Successor collective bargaining agreements with other bargaining units are under negotiation. All collective bargaining agreements are subject to an appropriation of funds by the General Assembly. No assurances can be given that sufficient appropriations will be approved.

**Constitutional Provisions Relating to Revenues and Expenditures**

Article VIII, Section 2 of the Illinois Constitution requires the Governor to prepare and submit to the General Assembly, at a time prescribed by law, 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 Illinois Constitution provides that the Governor may reduce or veto any item of appropriations in a bill passed and presented to him by the General Assembly. Portions of a bill not reduced or vetoed become law. An item vetoed is returned to the house in which it originated and may become law upon approval of three-fifths of the members of each house. An item reduced in amount may be restored to the original amount upon approval of a majority of the members elected to each house.

**Constitutional Provisions Relating to Long-Term Borrowing**

Section 9(a) of Article IX of the Illinois Constitution defines the term "State debt" as "bonds or other evidences of indebtedness which are secured by the full faith and credit of the State or are required to be repaid, directly or indirectly, from tax revenue and which are incurred by the State, any department, authority, public corporation or quasi-public corporation of the State, any State college or university, or any other public agency created by the State, but not by units of local government, or school districts."

Section 9(b) of Article IX of the Illinois 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 Illinois 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**

Sections 9(c) and 9(d) of Article IX of the Illinois Constitution, pursuant to which the Short Term Borrowing Act (30 ILCS 340/1 *et seq.*) was enacted, state:

> (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 is headed by a Director, who is appointed by the Governor (the "**Director**"). Jerome Stermer is the current acting Director. 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 its Electronic Municipal Market Access ("**EMMA**") system and other securities information repositories or state information depositories as required by federal securities rules.

GOMB has established an investor relations website, www.capitalmarkets.illinois.gov, as a means to communicate on an on-going basis about the State's debt financing and capital programs, including documents and links to important information about the State and its issuance of bonds.

**Website Index**

The following is the list of the websites referenced in this Remarketing Circular. None of the information on these websites is being incorporated by reference into this Remarketing Circular and the links to such websites are being provided only for the convenience of those reading this Remarketing Circular. GOMB is not responsible for the information within these websites and links to such websites are provided only to be used in conjunction with this Remarketing Circular insofar as the information on such websites relates to statements contained in this Remarketing Circular. Links to the following websites are being provided only with respect to information as it exists on such websites as of the date of this Remarketing Circular. The State takes no responsibility for any information contained on such websites unrelated to the statements made in this Remarketing Circular or for revisions to information on such websites occurring after the date of this Remarketing Circular. As noted above, the State disseminates and discloses certain information, including material updates to the State's bond disclosures, through EMMA. None of the websites listed below is intended to act as a substitute for the disclosure of the information posted on EMMA, nor do these websites necessarily include all of the information currently disclosed on EMMA. Please review the State's filings on EMMA for current information on the State's disclosures.

| Organization or Department | Website Address | Description of Website |
|---|---|---|
| State of Illinois | www.illinois.gov | Lead portal for all State information |
| Capital Markets | www.capitalmarkets.illinois.gov | Lead portal for investor outreach |
| Governor's Office of Management and Budget | http://www.state.il.us/budget/ | Lead portal for operating budgets, economic and fiscal reports and three year projections and quarterly reports |
| State of Illinois | http://www3.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=3&RecNum=10980 | Link to the Governor's Fiscal Year 14 Budget address |
| State of Illinois | http://www2.illinois.gov/gov/budget/Pages/BudgetBooks.aspx | Link to the Governor's proposed Fiscal Year 14 Operating Budget |
| Comptroller | www.ioc.state.il.us | Lead portal for all Comptroller based information |
| Comptroller (CAFR) | http://www.ioc.state.il.us/index.cfm/departments/research-and-fiscal/financial-reporting-publications/comprehensive-annual-financial-report-cafr/ | Link to CAFR Library |
| Comptroller, Traditional Budgetary Financial Report | http://www.ioc.state.il.us/index.cfm/departments/research-and-fiscal/research-and-fiscal-information-publications/traditional-budgetary-financial-report/ | Link to the Traditional Budgetary Financial Report |
| General Assembly | www.ilga.gov | Lead portal to the Illinois General Assembly |
| Retirement Systems: | | |
| TRS | www.trs.illinois.gov | Lead portal to Teacher's Retirement System |
| SURS | www.surs.com | Lead portal to State University Retirement System |
| SERS | www.state.il.us/srs | Lead portal to State Employee Retirement System |
| JRS | www.state.il.us/srs/judges/home_jrs.htm | Lead portal to Judges Retirement System |
| GAR | www.state.il.us/srs/gars/home_gars.htm | Lead portal to General Assembly Retirement System |
| College Illinois | http://www.isac.org/about-isac/financial-information.html | Link to the College Illinois actuarial report |
| Tax Handbook | http://www.ilga.gov/commission/lru/2012taxhandbook.pdf | Legislative Research Unit handbook on all Illinois taxes |
| Commission on Governmental Forecasting and Accountability | http://www.ilga.gov/commission/cgfa2006/Home.aspx | Lead portal to CGFA, contains its report on the financial condition of the Retirement Systems |
| Pension Reform Taskforce | http://www2.illinois.gov/gov/Pages/PensionReform.aspx | Lead portal to the Pension Reform Taskforce, contains their reports and other documents relating to pension reform |
| State Actuary Report | http://www.auditor.illinois.gov/Other-Public-Documents/State-Actuary-Reports.asp | Link to the Auditor General's State Actuary Report |
| Electronic Municipal Market Access | http://emma.msrb.org/ | Lead portal to MSRB's EMMA |

## STATE FINANCIAL INFORMATION

The tables that follow present pertinent financial information about the State. Data is for the State's fiscal years, each of which runs from July 1 through June 30. Tables 2, 3, 4 and 5, unless otherwise noted, are based on information contained in detailed annual reports or records of the Office of the Comptroller. The Fiscal Year 2012 Comprehensive Annual Financial Report ("**CAFR**") may be found at the Comptroller's website. See "STATE OF ILLINOIS—Website Index."

The Fiscal Year 2012 CAFR can be found at the Comptroller's website and has been filed with EMMA. The information relating to Fiscal Year 2012 in Table 2 ("General Funds Reconciliation Fiscal Year 2012"), under the caption "STATE FINANCIAL INFORMATION—General Purpose Financial Statements—Table 2," under the caption "OTHER GENERAL FUND LIABILITIES" and in related Table 18 ("Section 25 Liabilities – Fiscal Years 2007-2012"), and under the caption "OTHER POST EMPLOYMENT BENEFITS" and in related Table 35 ("Net Other Post Employment Benefits Obligation Fiscal Year 2012"), Table 35A ("Other Post Employment Benefits – Fiscal Years 2009-2012"), and Table 35B ("Other Post Employment Benefits Unfunded Actuarial Accrued Liability – Fiscal Years 2009-2012"), was obtained from the Office of the Comptroller based upon the Fiscal Year 2012 CAFR.

Tables 1, 1A and 5 are based on records of GOMB and also include information from reports and records of the Comptroller. For purposes of Tables 3 and 4, expenditures are deemed to be recognized when a liability is incurred and recorded by the Comptroller; disbursements of cash are deemed to be made when payment warrants are issued.

### Tables 1 and 1A – Four Year Comparison of General Operating Budget

Tables 1 and 1A, which are reflected on the following pages, are a four fiscal year comparison of the general operating budget of the State and prepared on a "budget basis." The budget basis reflects the statutory provisions and associated policies for recognition of revenues, expenditures, transfers and outstanding liabilities associated with the passage and adoption of the General Funds budget for each fiscal year. Budget basis statements differ materially from those prepared on the basis of generally accepted accounting principles ("**GAAP**"), as further discussed below. Tables 1 and 1A, Table 2 and the State's CAFR, taken together, should be referenced for a more complete understanding of the financial statements as well as accompanying footnotes. See "General Purpose Financial Statements Table 2," and "Discussion and Analysis of Fiscal Years 2011 through 2014" below.

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# TABLE 1
## STATEMENT OF SOURCES, USES AND CHANGES IN FUND BALANCE - GENERAL FUNDS (BUDGETARY BASIS)

*(Dollars in Millions)*

| | Fiscal Year 2010 Actual Results (June 2011) | Fiscal Year 2011 Actual Results (June 2012) | Fiscal Year 2012 Actual Results (June 2013) | Fiscal Year 2013 Preliminary (September 2013) | Fiscal Year 2014 Enacted Budget (July 2013) |
|---|---|---|---|---|---|
| **SOURCES** | | | | | |
| State Revenues | | | | | |
| Individual Income Tax | $ 8,511 | $ 11,225 | $ 15,512 | 16,538 | $ 16,030 |
| Corporate Income Tax | 1,360 | 1,851 | 2,461 | 3,177 | 2,937 |
| Sales Tax | 6,308 | 6,833 | 7,226 | 7,355 | 7,348 |
| Public Utility Taxes | 1,089 | 1,147 | 995 | 1,033 | 1,032 |
| Cigarette Taxes | 355 | 355 | 354 | 353 | 355 |
| Inheritance Tax | 243 | 122 | 235 | 293 | 210 |
| Liquor Gallonage Taxes | 159 | 157 | 164 | 165 | 165 |
| Insurance Tax and Fees | 322 | 317 | 345 | 334 | 350 |
| Corporate Franchise Taxes and Fees | 208 | 207 | 192 | 205 | 203 |
| Other State Sources | 732 | 706 | 766 | 768 | 701 |
| Federal Revenues | 5,920 | 5,386 | 3,681 | 4,154 | 4,178 |
| TOTAL REVENUES | 25,207 | 28,306 | 31,931 | 34,375 | 33,509 |
| Transfers In [1] | 2,159 | 1,857 | 1,691 | 1,953 | 2,233 |
| **TOTAL OPERATING SOURCES** | **27,366** | **30,163** | **33,622** | **36,328** | **35,742** |
| **USES** | | | | | |
| Operating Budget Objectives [2] | | | | | |
| Provide quality education and opportunities for growth | 9,663 | 9,300 | 8,945 | 8,632 | 8,753 |
| Enhance the economic well-being of citizens | 176 | 188 | 94 | 84 | 80 |
| Protect the lives and property of citizens | 1,518 | 1,649 | 1,533 | 1,475 | 1,533 |
| Protect the most vulnerable among us | 6,447 | 5,827 | 5,404 | 5,704 | 5,270 |
| Improve access to and cost effectiveness of healthcare | 6,227 | 6,971 | 6,845 | 7,043 | 7,039 |
| Improve the quality of life for citizens | 76 | 82 | 68 | 62 | 64 |
| Improve the efficiency and fiscal stability of State Government | 2,248 | 1,829 | 2,558 | 2,741 | 2,426 |
| State Pension Contributions [3] | 3,466 | 3,680 | 4,135 | 5,107 | 5,988 |
| Unspent Budgeted Appropriations [4] | (896) | (350) | (374) | (485) | (533) |
| TOTAL EXPENDITURES [4] | 28,925 | 29,176 | 29,208 | 30,363 | 30,620 |
| Transfers Out [5] | | | | | |
| Statutory Transfers to Other State Funds | 2,007 | 2,399 | 2,473 | 2,840 | 2,878 |
| Debt Service Transfers: Capital Bonds | 670 | 540 | 453 | 551 | 527 |
| Debt Service Transfers: Pension Bonds (2003, 2010, & 2011) | 564 | 1,667 | 1,607 | 1,552 | 1,655 |
| Debt Service Transfers: Medicaid Borrowing | 63 | 189 | 0 | 0 | 0 |
| **TOTAL OPERATING USES** | **32,229** | **33,971** | **33,741** | **35,306** | **35,680** |
| **EXCESS OPERATING SOURCES OVER/(UNDER) USES** | **(4,862)** | **(3,808)** | **(119)** | **1,022** | **62** |
| **OTHER FINANCIAL SOURCES/(USES)** | | | | | |
| Pension Obligation Bonds | 3,466 | 3,680 | 0 | 0 | 0 |
| Railsplitter - Tobacco Revenue Securitization | 0 | 1,250 | 0 | 0 | 0 |
| Short-Term Borrowing | 1,250 | 1,300 | 0 | 0 | 0 |
| Short-Term Borrowing Repayment | (2,276) | (1,322) | 0 | 0 | 0 |
| Inter-Fund Borrowing | 0 | 496 | 0 | 0 | 0 |
| Inter-Fund Borrowing Repayment | 0 | (10) | (356) | (132) | 0 |
| Budget Stabilization Fund Repayment | 0 | 0 | 0 | 0 | 0 |
| **TOTAL OTHER FINANCIAL SOURCES/(USES)** | **2,440** | **5,394** | **(356)** | **(132)** | **0** |
| **BUDGET BASIS SURPLUS/(DEFICIT)** | **(2,422)** | **1,586** | **(475)** | **890** | **62** |
| **FUND BALANCE - BEGINNING OF FISCAL YEAR** | **(3,673)** | **(6,095)** | **(4,509)** | **(4,984)** | **(4,094)** |
| **FUND BALANCE - END OF FISCAL YEAR** | **$ (6,095)** | **$ (4,509)** | **$ (4,984)** | **(4,094)** | **(4,032)** |

**Table 1 - Footnotes are on the page following Table 1A**

**TABLE 1A**
**FUND BALANCE - RECONCILIATIONS & COMPONENTS**
**GENERAL FUNDS (BUDGETARY BASIS)**

*(Dollars in Millions)*

| | Fiscal Year 2010 Actual Results (June 2011) | Fiscal Year 2011 Actual Results (June 2012) | Fiscal Year 2012 Actual Results (June 2013) | Fiscal Year 2013 Preliminary (September 2013) | Fiscal Year 2014 Enacted Budget (July 2013) |
|---|---|---|---|---|---|
| **CHANGE IN BUDGET BASIS FUND BALANCE** | | | | | |
| BUDGET BASIS FUND BALANCE - BEGINNING OF FISCAL YEAR | $ (3,673) | $ (6,095) | $ (4,509) | $ (4,984) | $ (4,094) |
| Budget Basis Surplus/(Deficit) | (2,422) | 1,586 | (475) | 890 | 62 |
| **BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR** | **(6,095)** | **(4,509)** | **(4,984)** | **(4,094)** | **(4,032)** |
| **CHANGE IN CASH BALANCE** | | | | | |
| GENERAL FUNDS CASH BALANCE - BEGINNING OF FISCAL YEAR | 280 | 129 | 467 | 40 | 154 |
| Budget Basis Surplus/(Deficit) | (2,422) | 1,586 | (475) | 890 | 62 |
| Increase/(Paydown) of Accounts Payable | 2,271 | (1,248) | 48 | (776) | (62) |
| GENERAL FUNDS CASH BALANCE - END OF FISCAL YEAR [6] | 129 | 467 | 40 | 154 | 154 |
| BUDGET STABILIZATION FUND CASH BALANCE - END OF FISCAL YEAR [7] | 0 | 0 | 276 | 276 | 276 |
| **TOTAL CASH BALANCE - END OF FISCAL YEAR** | **129** | **467** | **316** | **430** | **430** |
| **CHANGE IN ACCOUNTS PAYABLE** | | | | | |
| ACCOUNTS PAYABLE - BEGINNING OF FISCAL YEAR | 3,953 | 6,224 | 4,976 | 5,024 | 4,248 |
| Increase/(Paydown) of Accounts Payable due to Surplus/(Deficit) [8] | 2,271 | (1,248) | 48 | (776) | (62) |
| **ACCOUNTS PAYABLE - END OF FISCAL YEAR** | **6,224** | **4,976** | **5,024** | **4,248** | **4,186** |
| **BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR** | | | | | |
| General Funds Cash Balance - End of Fiscal Year | 129 | 467 | 40 | 154 | 154 |
| Less: Accounts Payable - End of Fiscal year | (6,224) | (4,976) | (5,024) | (4,248) | (4,186) |
| **BUDGET BASIS FUND BALANCE - END OF FISCAL YEAR [9]** | **$ (6,095)** | **$ (4,509)** | **$ (4,984)** | **(4,094)** | **$ (4,032)** |

**Table 1A - Footnotes are on following page**

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**FOOTNOTES – TABLE 1 & 1A**

[1] Transfers In consists primarily of state lottery and gaming revenues as well as transfers from the Build Illinois Fund (due to a one time release of $40 million of funds from the Build Illinois Debt Service Fund resulting from the issuance of the Junior Obligation Bonds Series June 2013), the Capital Projects Fund, and various fees and miscellaneous revenues, initially deposited into other state funds, and subsequently transferred to the General Funds, pursuant to statute.

[2] Beginning with the FY2012 budget, the State is implementing Budgeting for Results, an outcome based system of budgeting that allocates state funds based on program performance, Agency program expenditures are prioritized under seven desired outcomes and goals measured to be most effective at delivering results. For presentation consistency and comparison purposes fiscal year budgets prior to Budgeting for Results are presented in the same manner. More information is available on GOMB's website; see "STATE OF ILLINOIS – Website Index".

[3] General Funds pension contributions of $3,466 million for FY 2010 and $3,680 million for FY 2011 were made through issuance of approximately $3,466 million in General Obligation Bonds, Taxable Series of January 2010, and approximately $3,700 million in General Obligation Bonds, Taxable Series of February 2011. Bond proceeds were deposited to the Pension Contribution Fund, with two purposes: (1) to reimburse the General Funds for approximately $843 million in FY2010 and $224 million in FY 2011, initially paid from the General Funds to the State's five pension systems and prior to the bond issuances noted above, pursuant to a continuing appropriation; and (2) to the State's five pension funds for the remaining balance of General Funds pension contribution required appropriations for each fiscal year. In addition, General Funds pension contributions are net of payments funded by transfers from the State Pension Fund representing resources provided by the Unclaimed Property Trust Funds, pursuant to statute, in the following amounts: $139 million in FY2010 (actual), $63 million in FY 2011 (actual), $230 million (actual) in FY2012, $150 million (preliminary and unaudited) in FY2013, and $198 million (enacted) in FY2014. For presentation consistency and comparison purposes, the FY 2010 and FY 2011 financial information in Table 1 reflect the amounts for the General Funds pension fund contributions as well as the General Obligation pension bond proceeds, but the actual cash flows in that fiscal year were through the Pension Contribution Fund, as described above.

[4] Total Expenditures equal fiscal year budget appropriations minus unspent appropriations. Unspent appropriations reflect unused spending authority of agencies by the close of the fiscal year and uncashed check from prior fiscal years.

[5] State General Obligation bond debt service payments are made through a separate fund in the state treasury called the General Obligation Bond and Retirement Interest Fund (GOBRI). Monies from the General Funds are transferred monthly into GOBRI in equal increments to provide for the payment of principal and interest on bonds when due. See "SECURITY – STATE FUNDING PAYMENTS".

[6] End of Year General Funds Cash Balance equals the Beginning Cash Balance plus/(minus) the Budget Basis Surplus/(Deficit), and plus/(minus) the Increase/(Decrease) of Accounts Payable.

Deficits are financed by reducing Cash balances and/or increasing outstanding Accounts Payable. Surpluses will increase year-end Cash balance and/or reduce outstanding Accounts Payable.

[7] The Budget Stabilization Fund (BSF) is used for cash flow timing differences and is consolidated with the General Funds Cash balance for reporting purposes in the Comprehensive Annual Financial Report. By statute, any intra-year cash flow borrowings transferred to the General Funds are to be reimbursed by a transfer back to the BSF by June 30th of that fiscal year. Public Act 97-44 authorized deferring the FY 2011 cash repayment until FY 2012, which occurred by July 15, 2011 consistent with that Act.

[8] A Budget Basis Surplus/(Deficit) has the effect of (decreasing)/increasing outstanding payables, after reflecting any change in ending Cash balance for that fiscal year. Deficits are financed by reducing Cash balances and/or increasing outstanding Accounts Payable. Surpluses will increase year-end Cash balance and/or reduce outstanding Accounts Payable. 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 (P.A. 96-146 which permanently extends the Lapse Period for Medicaid bills to December 31st of the following 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, see discussion "OTHER GENERAL FUND LIABILITIES" for significant changes in the State's Finance Act and the implications for future Section 25 liabilities.

[9] Budget Basis Fund Balance at fiscal year end is the difference between General Funds Cash and Budget Basis Accounts Payable, both measured at June 30th, with a fund balance deficit resulting when Accounts Payable exceeds General Funds Cash.

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## Table 2
## GENERAL FUNDS RECONCILIATION[1] - FISCAL YEAR 2012
**($ IN THOUSANDS)**

| | Cash Basis | Adjustments for Budgetary Basis | Budgetary Basis | Adjustments for GAAP | GAAP Basis |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Income Taxes (net) | $ 18,044,228 | $ - | $ 18,044,228 | $ (664,489) | $ 17,379,739 |
| Sales Taxes (net) | 7,225,573 | - | 7,225,573 | (300,797) | 6,924,776 |
| Public Utility Taxes (net) | 995,148 | - | 995,148 | (3,242) | 991,906 |
| Federal government (net) | 3,636,653 | - | 3,636,653 | 3,830,571 | 7,467,224 |
| Other (net) | 2,044,784 | (98) | 2,044,686 | 2,515,507 | 4,560,193 |
| Total revenues | 31,946,386 | (98) | 31,946,288 | 5,377,550 | 37,323,838 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Health and Social Services | 13,036,056 | 296,533 | 13,332,589 | 6,399,748 | 19,732,337 |
| Education | 12,334,055 | (246,986) | 12,087,069 | (25,238) | 12,061,831 |
| General Government | 1,571,512 | 83,616 | 1,655,128 | 225,969 | 1,881,097 |
| Employment and Economic Development | 184,960 | (85,837) | 99,123 | (29,630) | 69,493 |
| Transportation | 64,960 | (43,621) | 21,339 | 501,799 | 523,138 |
| Public Protection and Justice | 2,058,773 | (72,579) | 1,986,194 | 769,990 | 2,756,184 |
| Environment and Business Regulation | 81,757 | (13,823) | 67,934 | 61,050 | 128,984 |
| Debt Service: | | | | | |
| Principal | - | - | - | 1,742 | 1,742 |
| Interest | - | - | - | 1,619 | 1,619 |
| Capital Outlays | 9,162 | 10,097 | 19,259 | (2,769) | 16,490 |
| Total expenditures | 29,341,235 | (72,600) | 29,268,635 | 7,904,280 | 37,172,915 |
| Excess of revenues over expenditures | 2,605,151 | 72,502 | 2,677,653 | (2,526,730) | 150,923 |
| Other sources (uses) of financial resources: | | | | | |
| Transfers-in | 7,406,202 | (175,178) | 7,231,024 | (5,597,271) | 1,633,753 |
| Transfers-out | (10,440,509) | 55,507 | (10,385,002) | 7,476,590 | (2,908,412) |
| Capital lease financing | - | - | - | 1,164 | 1,164 |
| Net other (uses) of financial resources | (3,034,307) | (119,671) | (3,153,978) | 1,880,483 | (1,273,495) |
| Excess of revenues over expenditures and net other (uses) of financial resources | (429,156) | (47,169) | (476,325) | (646,247) | (1,122,572) |
| Fund balances (deficit), July 1, 2011, as restated | 469,168 | (4,976,577) | (4,507,409) | (3,502,547) | (8,009,956) |
| Increase (decrease) for changes in inventories | - | - | - | (451) | (451) |
| Fund balances (deficit), June 30, 2012 | $ 40,012 | $ (5,023,746) | $ (4,983,734) | $ (4,149,245) | $ (9,132,979) |

[1]Based on information from the Illinois Office of the Comptroller

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**Notes to Tables 1, 1A and 2**

Table 2, which is presented above, is a General Funds Reconciliation between cash, budgetary and GAAP basis of accounting for Fiscal Year 2012.

The material in Tables 1 and 1A reflect the most current information available as of the date presented. Column titles reflect the fiscal year, the nature of information presented (e.g., actual results, preliminary unaudited results, or enacted budget) and the date the respective reports were released. Data is drawn from and reconciled to the audited Traditional Budgetary Financial Report ("**TBFR**") that is prepared by the Illinois Office of the Comptroller, and audited by the Illinois Office of the Auditor General, using accounting practices prescribed or permitted by the State Comptroller Act which are materially different from GAAP as promulgated by the Government Accounting Standards Board ("**GASB**"), and reflected in the CAFR of the State. A final copy of the Fiscal Year 2012 TBFR can be found on the Comptroller's website. See "STATE OF ILLINOIS—Website Index."

Key differences between the TBFR used in Tables 1 and 1A and GAAP utilized in preparing the fiscal year CAFR include the following:

- *Revenue Recognition*:
    - The TBFR recognizes as revenues those amounts collected and deposited by June 30 of each fiscal year.
    - The CAFR recognizes as revenues amounts earned but collected and deposited no later than 60 days after the end of the fiscal year.
- *Expenditure and Liability Recognition*:
    - The TBFR recognizes as expenditures and liabilities only those amounts that are appropriated for that fiscal year, incurred by June 30, and paid no later than 60 days after the end of the fiscal year (statutorily extended to December 31 for Fiscal Years 2010 – 2013).
    - The CAFR recognizes all expenditures that are incurred and paid by June 30, or are legal liabilities of that fiscal year, even if such amounts exceeds the appropriations for that fiscal year.
    - "Section 25 Liabilities" reflect the difference in TBFR versus CAFR expenditures when insufficient appropriations exist for incurred liabilities. Section 25 refers to statutory authorization that permits the Comptroller to pay such liabilities during the subsequent fiscal year (See "OTHER GENERAL FUND LIABILITIES").
- *Statutory Transfers:* For purposes of enhancing inter-year comparability, Table 1 eliminates cash management transfers in and cash management transfers out that are of an intra-year nature and that offset each other by fiscal year end.
- *Pension Expenditures*:
    - The TBFR reflects statutorily required contributions. Amounts shown in Table 1 represent only the General Funds portion (approximately 89% of the total required contribution) as certified by each of the 5 State pension systems net of the debt service on the Fiscal Year 2003 General Obligations Pension Obligation Bonds pursuant to the authorizing statute, and net of transfers from the State's Unclaimed Property Trust Fund.

    - For additional differences between statutory funding requirements and GAAP and other important disclosures of the pension obligations of the State, please see "PENSION SYSTEMS".
- *Scope of General Funds*:
    - The TBFR and Table 1 reflect the General Revenue Fund, the Common School Fund, the Common School Special Fund, the Education Assistance Fund, and the Budget Stabilization Fund.
    - The CAFR also includes Medicaid Provider Assessment Program Funds, and certain other funds as more fully described in Footnote 1 therein. See also "Note 1 – Cash/Budget to GAAP Perspective Differences" below.

**General Purpose Financial Statements – Table 2**

The complete General Purpose Financial Statements for Fiscal Year 2012, prepared in accordance with GAAP, have been filed with EMMA and are incorporated in this Remarketing Circular by reference. Such statements are also available upon request from the Comptroller at (217) 782-6000 or from the Comptroller's webpage. See "STATE OF ILLINOIS—Website Index."

These statements were prepared by the Comptroller and examined and certified by the State Auditor General. For Fiscal Year 2012, the Auditor General has expressed an unqualified opinion on the General Purpose Financial Statements. The following explanatory notes should be considered in connection with the review of the General Purpose Financial Statements for Fiscal Year 2012, and in connection with review of Table 2 presented above (all amounts are presented in thousands of dollars).

*Note 1 – Cash/Budget to GAAP Perspective Difference*

On the GAAP basis, the Medicaid Provider Assessment Program Funds, the Income Tax Refund Fund and various other funds are reported as part of the General Fund; whereas, they are not considered part of the General Fund on the budgetary basis or the cash basis.

*Note 2 – Cash to Budget Adjustments*

The budgetary basis fund balance deficit of $4,983,734 equals the June 30, 2012 cash balance of $40,012 less cash lapse period expenditures and transfers-out of $5,023,746. Adjustments from the cash basis of accounting for fiscal year 2012 to the budgetary basis include adding fiscal year 2012 lapse period spending and subtracting fiscal year 2011 lapse period spending. Lapse period expenditures are payments between July 1 – August 31 for services received and for goods "encumbered" (ordered or contracted for) on or before June 30 and received no later than August 31 which are paid from fiscal year 2012 "lapsing accounts." In addition, interest on late payments through December 31 is included in lapse period transactions as Public Act 97-0732 extended the lapse period to December 31 for fiscal year 2012. Lapse period transfers are statutory transfers approved on or prior to June 30, 2012 but not made until after June 30, 2012.

*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, Medicaid reimbursements and payments to local school boards for State Board of Education reimbursement programs). Adjustments to Income Taxes and Sales Taxes reflect refund liabilities that are not included on a budgetary basis. These amounts are recorded in a contra-revenue account for GAAP basis accounting.

There were also classification differences between the budgetary basis and GAAP basis. 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.

**Discussion and Analysis of Fiscal Years 2011 Through 2014**

The information below summarizes budgets from Fiscal Year 2011 through the Fiscal Year Enacted 2014 Budget, including overall economic conditions within the State as well as an analysis of both the State's operating budget and capital budget. The reader is referred to Tables 1 and 1A to supplement the budget discussion on each fiscal year.

**Fiscal Year 2011 (July 2010 – June 2011) – Actual Results**

<u>Economic Condition</u>

Illinois' economy experienced a rebound following the recession of 2008 and 2009 as economic activity and employment both improved within the State. At the beginning of Fiscal Year 2010, the unemployment rate in Illinois was 10.1 percent, near the highest in the nation, but by year-end had decreased on par with the national unemployment rate to 9.1%. Over the same period, non-farm payroll employment increased by 77,000 with consistent month-to-month growth over the fiscal year. Compared to the declines experienced in Fiscal Year 2010, personal income grew by 5.8% in 2011, coinciding with decreasing unemployment and higher economic activity.

After consecutive contractionary periods of the two previous calendar years, economic output in Illinois once again increased in 2010 as State real Gross Domestic Product grew by 1.9%. The manufacturing, retail trade, finance, and information industries, among others, saw positive growth; however, construction continued its decline for the third consecutive year. Wages and salaries rose 3.9% in 2011 and reached pre-recession levels in the final quarter of the fiscal year.

The State's three major sources of tax revenues experienced growth in Fiscal Year 2011 after five consecutive quarters of decline leading into the fiscal year. Total taxable sales in Illinois increased by 6.9 percent in Fiscal Year 2011, with the extent of the growth attributable to higher general retail sales and motor vehicle and fuel sales.

*Budget Analysis*

*Revenues*

Total State Operating Revenues and Transfers In for Fiscal Year 2011 totaled $30,163 million, a $2,797 million or a 10.2% increase over Fiscal Year 2010. The increase is attributed to several one-time revenue enhancements, and more significantly, temporary increases in State income tax rates. The enhancements, authorized by the General Assembly, included the ability to borrow from other State funds ($496 million) and accelerated collection of back taxes (as discussed below) owed to the State ($717 million). Increases to the individual and corporate income tax rates produced $3,205 million in additional revenues over the previous fiscal year.

On January 11, 2011, the Governor signed into law Public Act 96-1496, temporarily increasing the State individual income tax from 3% to 5% and the corporate income tax from 4.8% to 7.0%. The new tax rates will be effective until January 1, 2015, when the individual and corporate income tax rate will decline to 3.75% and 5.25%, respectively (See "TAX REVIEW" below). The tax increase became effective on January 1, 2011; therefore revenues corresponding to the higher tax rates were only realized for the second half of the fiscal year. Under the tax amnesty program, authorized by Public Act 96-958, Illinois taxpayers who paid eligible back taxes during the amnesty period, which ran from October 1 to November 8, 2010, received a waiver of all associated interest and penalties. On November 9, the day after the amnesty ended, penalties and interest on unpaid back taxes doubled. The State received amnesty payments from over 78,000 taxpayers and collected $717 million in amnesty payments.

Total State Source revenues, with the effect of the higher income tax rates and the tax amnesty program, increased by $3,633 million or 18.8% to $22,920 million from Fiscal Year 2010. Individual income taxes totaled $11,225 million in fiscal year 2011, an increase of $2,714 million, or 31.9% over Fiscal Year 2010, and corporate income taxes totaled $1,851 million, an increase of $491 million, or 36.1% from the previous fiscal year. Excluding the effects of the tax increase and amnesty program, individual and corporate income taxes still increased by approximately 2.5% and 15.3%, respectively. The increase from Fiscal Year 2010 base revenues is attributed to the growth in the State economy supported by higher employment as well as increase in corporate profits and real GDP growth.

Sales taxes experienced stronger than projected growth in Fiscal Year 2011 with an increase of $525 million or 8.3% to $6,833 million. One-time revenues from the tax amnesty program accounted for $164 million of the total increase for sales tax. Sales tax receipts were higher in the second half of the fiscal year corresponding to increased motor fuel prices and overall stronger retail sales in the third and fourth quarter of the fiscal year. All other State receipts were down $144 million or 4.6 percent primarily due to a decline in inheritance tax collections by $121 million from the repeal of the federal estate tax that was also coupled to the Illinois estate tax law.

Federal Source revenues decreased by $534 million or 9% over the previous fiscal year to $5,386 million due primarily to decreased Medicaid matching dollars deposited into the General Funds associated with a budgetary decision to move certain Medicaid expenditures and reimbursement deposits to other State funds. Federal reimbursements are received in relative proportion to State

Medicaid spending hence a reduction in fund expenditures consequently reduces federal matching revenues deposited to that fund.

Total Transfers In decreased by $363 million or 3.8% primarily due to fund sweeps from other state funds executed in Fiscal Year 2010 not authorized in Fiscal Year 2011. In addition, the General Funds received increased statutorily required transfers from the Capital Projects Fund as a result of higher fund balances during its first full year of tax revenues.

*Expenditures*

Fiscal Year 2011 total expenditures and Transfers Out equaled $33,971 million, which was $1,742 million or 5.4% higher than Fiscal Year 2010. Expenditures from appropriations, excluding pension contributions, increased by $37 million to $25,496 million as the majority of the total spending increase was due to higher Transfers Out. Compared to the prior fiscal year, programmatic funding for State primary and secondary education experienced the largest change as spending decreased by $363 million or 3.8% due to a reduction of General State Aid to school districts provided by the Federal government under the American Recovery and Reinvestment Act of 2009 ("**ARRA**"). Pension contributions, as in Fiscal Year 2010, were made through the issuance of bonds, meaning General Funds were not utilized for any portion of the contribution. The issuance was executed March 10, 2011, with total proceeds of $3,680 million.

Transfers Out, excluding Other Sources (Uses) and Inter-Fund Borrowing/Repayments, totaled $4,795 million, a $1,491 million increase from Fiscal Year 2010. Due to the expiration of the enhanced Medicaid match under ARRA and in order to increase Federal revenues, the State prioritized all Medicaid provider payments at the end of the fiscal year ahead of other outstanding vouchers. The General Assembly passed Public Act 97-44 in June of 2011 allowing for the repayment of the Budget Stabilization Fund after the end of Fiscal Year 2011 and authorizing the transfer of $365 million to the Healthcare Provider Relief Fund to maximize Medicaid vendor payments to capture additional federal revenues before the expiration of the program. Debt service payments were the primary source of the increase in total Transfers Out as the first interest and principal payments on the 2010 Pension Bonds were made in Fiscal Year 2011.

*Cash Flow*

One time revenue enhancements were used in the first half of Fiscal Year 2011, as discussed above in "Fiscal Year 2011 (July 2010 – June 2011) Actual Results–Budget Analysis–Revenues", to pay outstanding obligations for Fiscal Year 2010. Additionally, Fiscal Year 2011 revenues were used to pay down Fiscal Year 2010 obligations causing certain expenditures incurred in 2011 to be delayed to the latter part of the fiscal year as done in Fiscal Year 2010. The State again executed a borrowing to pay the Fiscal Year 2011 pension contribution, General Obligation Bonds Taxable Series of February 2011, as total State resources were insufficient to make contributions out of General Funds without reducing other appropriations by the statutory amount of that contribution.

The State began Fiscal Year 2011 with a Budget Basis Accounts Payable balance of $6,224 million. Increases in the individual and corporate income tax rates, though effective only for half of the fiscal year, contributed to lowering total Accounts Payable by fiscal year end (June 30, 2011) to $5,148 million. As described below under "Fiscal Year 2012 (July 2011 – June 2012) – Actual Results—Budget Analysis—Cash Flow", the lapse period for Fiscal Year 2011 was also extended by the General Assembly to December 31, 2011 to allow additional time for the receipt and payment of Fiscal Year 2011 obligations.

The CAFR and Traditional Budgetary Financial Report ("**TBFR**") for Fiscal Year 2011 are available on the Comptroller's website (See "**Website Index**").

*Fiscal Year 2011 Capital Budget*

The Fiscal Year 2011 Capital Budget was a continuation and extension of the Illinois Jobs Now! program. The total Fiscal Year 2011 Capital Budget was $28,236 million which takes into account re-appropriations from the previous fiscal year.

In Fiscal Year 2011 new appropriations from current revenues of $2,196 million were for highway, road, bridge, rail, and airport construction, as well as $495 million for environmental projects. An additional $203 million in bond financed appropriations were made for the following: $146.5 million for highway, road, bridge, rail, and airport construction; $22.5 million for Energy and Environment projects; and $34 million for economic development. Collectively, total new appropriations from bond financed and current revenue sources for Fiscal Year 2011 were $2,896 million.

The remainder of the Fiscal Year 2011 Capital Budget contained prior year re-appropriations totaling $25,340 million. Re-appropriations are made in each fiscal year's capital budget of multi-year State projects funded through bond financing as well as State revenues over the following several fiscal years. The total re-appropriations included in the Fiscal Year 2011 Capital Budget, to be supported through bond financing, were $17,198 million, which includes $14,372 million of GO Bonds and $2,826 million of Build Illinois bonds. Total capital re-appropriations funded out of current revenues were $8,142 million, including prior federal funding of $696 million.

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**Fiscal Year 2012 (July 2011 – June 2012) – Actual Results**

*Economic Condition*

Illinois faced continuing uncertain economic conditions at the beginning of Fiscal Year 2012 as reflected by the downgrade of the U.S. credit rating by Standard and Poor's in August 2011, and the state unemployment rate remaining at 10.1% from July 2011 through September 2011, according to the U.S. Bureau of Labor Statistics. However, employment conditions improved within the State as the year progressed as unemployment decreased over the second half of Fiscal Year 2012 and ended the Fiscal Year at 9.0%, even as the labor force grew steadily over the same period of time. Personal income, which grew in each of the four previous quarters prior to the beginning of Fiscal Year 2012, leveled in the first two quarters of Fiscal Year 2012, coinciding with the uncertain economy and higher jobless rates. Real GDP increased in calendar year 2011, including the first half of Fiscal Year 2012, by 1.3% over the previous fiscal year. Strong retail sales activity led to increases in total taxable sales of 2.8% and 4.0% in quarters two and three of Fiscal Year 2012 over the same quarters in the previous fiscal year.

*Budget Analysis*

*Revenues*

Total Operating Revenues and Transfers In increased by $3,459 million or 11.5% from Fiscal Year 2011 to $33,622 million. Growth in total fiscal year revenues was primarily attributed to higher individual and corporate income tax receipts that increased by $4,287 million (38.2%) and $610 million (33.0.%), respectively, over Fiscal Year 2011. That reflects a full year of taxed revenues under higher income tax rates that took effect in the middle of the previous fiscal year. Additionally, income tax revenues were higher than anticipated in the last two quarters of the Fiscal Year as March and July withholding receipts exceeded expectations. Sales tax revenues grew by $393 million or 5.8% to $7,226 million as strong sales activity and higher motor fuel prices contributed to higher collections in Fiscal Year 2012. All other State source receipts on a combined basis decreased by $32 million or 1.1%.

Federal revenues decreased by $1,705 million or 31.7% from Fiscal Year 2011 to $3,681 million. The decrease was attributed to a variety of factors including, the end of Federal stimulus dollars paid to the State under ARRA, the acceleration of Medicaid payments from Fiscal Year 2012 done to Fiscal Year 2011 to take advantage of the enhanced Federal matching dollars available until June 30, 2011, a shift of Medicaid spending to other State funds and subsequent decrease in matching Federal dollars, and a reduction in Medicaid appropriations over the previous fiscal year resulting in decreased Federal matching revenues (See "OTHER GENERAL FUND LIABILITIES"). Additionally, Medicaid matching revenues were deducted by the Federal government from back payments owed by the State on Medicare premium payments for Medicare/Medicaid dual eligible enrollees. Transfers In decreased by $166 million or 8.9% due to a decrease in transfers from the Capital Projects Fund over the previous fiscal year.

*Expenditures*

Fiscal Year 2012 Total Operating Expenditures and Transfers Out, excluding Inter-Fund Borrowing repayments, decreased by $230 million or 0.7% over Fiscal Year 2011 to $33,741 million reflecting reductions in multiple State agency budgets. Spending reductions were made to nearly all major spending categories, including General State Aid to education, social service programs, and operational, administrative and personnel expenses within State agencies.

Compared to the two previous fiscal years, the State pension contribution was made from General Funds and not through bond financing. The State Pension contribution from General Funds for Fiscal Year 2012 was $4,135 million which was $455 million or 12.4% higher than previous fiscal year. Total Transfers Out (including repayment of inter-fund borrowing) decreased by $262 million or 5.5% to $4,533 million. Higher transfers from the General Funds include $160 million to the Healthcare Provider Relief Fund and $140 million to the Hospital Provider Relief Fund for Medicaid service providers were offset by debt service obligations as additional bonds were retired and the State undertook a refunding of certain outstanding General Obligation bonds.

Total spending for the fiscal year was $3,077 million below the spending cap that was established as part of the income tax increase under Public Act 96-1496. The State was required to stay below the spending limitation for Fiscal Year 2012 of $36,818 million. If final expenditures were to exceed the spending cap, as determined by the Auditor General of the State, the individual and corporate income tax rates would revert back to 3% and 4.8%, respectively, or prior to the rate increases established by Public Act 96-1496. The Fiscal Year 2012 Budget Basis Operating Deficit was $475 million.

*Cash Flow*

Compared to the Fiscal Year 2011 budget, Fiscal Year 2012 resources were derived solely from State and federal sources and no other one-time revenue enhancements, including no inter-fund, short-term or pension obligation borrowings. As in the previous two fiscal years, the lapse period for Fiscal Year 2012 was extended under Public Act 97-732 to December 31st 2012. Extension of the lapse period allows for payment of Fiscal Year 2012 bills through the end of December for liabilities incurred prior to June 30th. The Budget Basis accounts payable at the end of Fiscal Year 2012 was $5,024 million.

Reflected in the Other Financial Sources (Uses) section of Table 1, repayments of $356 million were made to other State funds for Inter-Fund Borrowing made during Fiscal Year 2011. Under Public Act 97-44, the repayment of the Budget Stabilization Fund borrowing in Fiscal Year 2011 was deferred to Fiscal Year 2012 to allow maximum available resources for Medicaid purposes before expiration of the enhanced federal match under ARRA. Though the cash payment was completed in Fiscal Year 2012, the transfer was charged to Fiscal Year 2011 and thus is not presented under Fiscal Year 2012 in Table 1.

As shown in Tables 1 and 1A, the end of year Budget Basis Operating Deficit was $475 million. The deficit was financed through an increase in Accounts Payable and use Fiscal Year 2011 end Cash balances.

*<u>Fiscal Year 2012 Capital Budget</u>*

The total Fiscal Year 2012 Capital Budget was $26,047 million which reflects re-appropriations from the previous fiscal year. In Fiscal Year 2012, new appropriations from current revenues of

$2,146 million were for highway, road, bridge, rail, and airport construction, as well as $468 million for environmental, energy, and technology projects. An additional $5 million in bond financed appropriations were for economic development. In Fiscal Year 2012, various Illinois Jobs Now! appropriations were reallocated, including $309 million for State facilities, $17 million for energy, and $33 million for air transportation. Collectively, total new appropriations from bond financed and current revenue sources for Fiscal Year 2012 were $2,978 million.

The remainder of the Fiscal Year 2012 Capital Budget contains prior year re-appropriations totaling $23,069 million. Re-appropriations are made in each fiscal year's capital budget of multi-year State projects funded through bond financing as well as State revenues over the following several fiscal years. The total re-appropriations included in the Fiscal Year 2012 Capital Budget, supported through bond financing, were $14,981 million, which included $12,382 million of GO Bonds and $2,599 million of Build Illinois bonds. Total capital re-appropriations funded out of current revenues were $8,088 million, including total prior federal funding of $733 million.

### Fiscal Year 2013 (July 2012 – June 2013) – Preliminary Results

**Preliminary Results are based solely on information available as of the date of this Remarketing Circular and are subject to audit and subsequent revisions.**

*ECONOMIC CONDITION*

Seasonally adjusted employment in Illinois declined by 28,533 jobs, or 0.5% in Fiscal Year 2013 according to data from the U.S. Bureau of Labor Statistics. That reflected seasonally adjusted unemployment increasing from 9.0% to 9.1% during Fiscal Year 2013. However, Illinois Gross Domestic Product continued to improve with the average annual GDP increasing 2.9% during the Fiscal Year, according to IHS Global Insight data. Illinois Department of Revenue data indicated that wages and salaries grew 2.7% during Fiscal Year 2013.

*BUDGET ANALYSIS*

*Revenues*

Preliminary end of Fiscal Year 2013 Total State Operating Revenues and Transfers In total $36,328 million, a $2,706 million or 8.1% increase over Fiscal Year 2012. State revenue sources, including the State's three primary sources (individual income tax, corporate income tax and sales tax), totaled $27,070 million. Individual Income Tax revenues increased $1,026 million or 6.6% from Fiscal 2012. This increase was largely attributed to taxes on capital gains paid by individuals and businesses prior to the federal government sequester and perceived possibility of an increase in federal income tax rates. Receipts reflected 9.5% of total individual income tax revenues being diverted to the Income Tax Refund Fund for payment of individual income tax refunds.

Corporate income tax revenues totaled $3,177 million, a $716 million or 29.1% increase over Fiscal Year 2012, due to economic growth. This amount reflects 13.4% of total corporate income tax revenues being diverted to the Income Tax Refund Fund for payment of corporate income tax refunds. Preliminary Fiscal Year 2013 sales taxes totaled $7,355 million, an increase of $129 million or 1.8%. Strong motor vehicle and retail sales combined with high motor fuel prices factored into the increased sales tax revenue. All other State sources increased by $172 million primarily due to higher public utility and inheritance tax receipts and offset by lower insurance tax receipts and fees.

Federal Revenues, driven primarily by State Medicaid spending and matching federal monies, increased from Fiscal Year 2012 by $473 million, or 12.8% to $4,154 million. Fiscal Year 2012 Medicaid expenditures were paid during the lapse period resulting in increased federal match monies recognized in Fiscal Year 2013. As State revenues are recognized on a cash basis, federally matched monies received for expenditures occurring after June 30th were recorded in the following fiscal year. Transfers In increased by $262 million, or 15.5%, to $1,953 million. This was primarily due to $264 million of Transfers In from the newly created Backlog Payment Fund (Public Act 97-685) created to pay non-Medicaid related outstanding bills and funded by reductions in other statutory transfers.

*Expenditures*

Total Operating Expenditures and Transfers Out for the Fiscal Year 2013 Preliminary Results increased by $1,565 million or 4.6% to $35,306 million over Fiscal Year 2012, excluding Inter-Fund Borrowing repayments. Fiscal year spending included $603 million in supplemental appropriations passed in February 2013 in Public Act 98-0001, including $550 million for the State group health insurance program initially funded for only the first six months of the fiscal year.

In Fiscal Year 2013, the Governor and the General Assembly enacted reforms to the State Medicaid program to reduce costs and add new revenue sources. The Medicaid program liability in Fiscal Year 2013, absent these reforms, would have increased by approximately $2.7 billion. Total reforms included: $1.6 billion in 62 spending item reductions, utilization controls and provider rate cuts; $1 per pack cigarette tax increase for $700 million in new revenue for Medicaid funding; a new hospital assessment program that generates $100 million in annual revenues; and $300 million allocated to Medicaid from increased State General Funds revenues. Any Medicaid liability not addressed by the above-mentioned reforms will result in increased Section 25 liabilities at the end of the fiscal year.

Pension contributions for Fiscal Year 2013 to the State's five pension systems totaled $5,107 million from the State's General Funds, an increase of $972 million or 23.5%. Contribution to the State pension systems increased between Fiscal Year 2012 and Fiscal Year 2013 reflecting five-year experience reviews of actuarial assumptions, conducted by four of the five systems, as required under State pension funding laws. Per those reviews, adjustments to certain assumptions and increased fiscal year contribution requirements were made.

Transfers Out to other State funds in Fiscal Year 2013 were $4,943 million, or an increase of $410 million or 9.0% over Fiscal Year 2012. This includes additional transfers to the Healthcare Provider Relief Fund of $500 million for payment of the $1 billion in outstanding Medicaid bills, including federal matching dollars. These transfers include $151 million dedicated to the Healthcare Provider Relief Fund to address a portion of the $2.7 billion Medicaid liability mentioned above. Additionally, $100 million in transfers were authorized to the Worker's Compensation Fund designated for employee benefit payments.

The State is required to stay below the fiscal year spending cap established under Public Act 96-1496 of $37,554 million. Based on preliminary Fiscal Year 2013 expenditures, State spending was $2,248 million below this cap. If final expenditures were to exceed the spending cap, as determined by the Auditor General of the State, the individual and corporate income tax rates would revert back to 3% and 4.8%, respectively, or prior to the rate increases established by Public Act 96-1496.

*Cash Flow*

The Fiscal Year 2013 Budget did not include any additional non-recurring revenue sources including borrowings and financings to fund the General Funds. The revised budget included appropriations and authorized transfers for the purpose of payment of outstanding State bills. As previously mentioned, $500 million was authorized to be transferred into the Healthcare Provider Relief Fund to pay outstanding Medicaid bills. The transfer was cycled repeatedly over the course of the fiscal year under the 50% Federal Medical Assistance Percentage match provided to Illinois until $500 million in federal matching monies was achieved. This allowed for the payment of $1 billion in outstanding State Medicaid bills reducing the State's payables backlog classified under Section 25 Liabilities. Appropriations were made to the Illinois Office of the Comptroller in the amount of $264 million to be deposited in to the newly created Backlog Payment Fund which was dedicated to payment of outstanding non-Medicaid bills. In total, Fiscal Year 2013 budgeted appropriations and transfers of approximately $1.3 billion were dedicated for the payment of outstanding payables in addition to any fiscal year budget surplus.

Preliminary end of Fiscal Year 2013 results reflect an $890 million surplus of total receipts over total disbursements. The preliminary surplus was used to increase General Funds Cash balance to $154 million, with the $776 million balance applied to reduce Accounts Payable (subject to final audit) to approximately $4,248 million.

*FISCAL YEAR 2013 CAPITAL BUDGET*

The total new appropriations for Fiscal Year 2013 from both current revenues and bond funds was $1,987 million. This included $1,644 million for highway, road, bridge, rail, inland ports and airport construction, as well as $322 million for environmental projects and $2.6 million for State facilities from current revenues. Collectively, total new appropriations from current revenue sources for Fiscal Year 2013 were $1,968 million. New bond fund appropriations for economic development were $19 million.

The remainder of the Fiscal Year 2013 Capital Budget contains prior year re-appropriations consisting of both bond funded and current revenue sources totaling $23,156 million. The total bond-financed re-appropriations included in the Fiscal Year 2013 Capital Budget were $14,361 million, which includes General Obligation Bonds in the amount of $11,879 million and Build Illinois Bonds in the amount of $2,482 million. Total capital re-appropriations funded out of current revenues were $8,794 million.

**Fiscal Year 2014 (July 2013 – June 2014) – Enacted Budget**

*Economic Condition*

Beginning Fiscal Year 2014, Illinois' unemployment rate was 9.1%, higher than the national unemployment rate of 7.4%, according to U.S. Bureau of Labor Statistics data. However, Illinois' average annual Gross Domestic Product is expected to increase 3.0% during Fiscal Year 2014 over Fiscal Year 2013, according to IHS Global Insight data. Beginning Fiscal Year 2014, Total non-farm employment was 0.9% higher than the beginning of Fiscal Year 2013, per Illinois Department of Employment Security data. Total non-farm payroll is projected to continue its gradual average annual growth by increasing 1.2% during Fiscal Year 2014, and average annual non-farm annual wage is projected to increase 2.4% to $55,840, a 10.9% increase over the past 5 years, according to IHS Global Insight data. Total single-family housing permits are projected to reach 48,240 during Fiscal Year 2014, a 30.9% increase over the 36,850 recorded during Fiscal Year 2013, according to IHS Global Insight data.

*Budget Analysis*

**Revenue estimates reflect projections of the Department of Revenue and Governor's Office of Management and Budget, as such these revenues differ from Joint Resolution of the General Assembly, required by statute. Expenditure Appropriations are as approved by the General Assembly.**

*Revenues*

Total State Operating Revenues and Transfers In from other State funds are estimated to total $35,742 million for the Fiscal Year 2014 Enacted Budget, a decrease of $586 million or 1.6% from preliminary Fiscal Year 2013 results. The State's three largest revenue sources; Individual Income Tax, Corporate Income Tax and State Sales Tax, are estimated to have a net decrease of $755 million or 2.8% in Fiscal Year 2014. This decrease is attributed to unexpected revenue collections in April 2013, as previously discussed, associated with individual and corporate taxpayers anticipating potential increases in federal income tax rates that would become effective in 2013.

Federal Revenues from Medicaid premium reimbursements are expected to increase $24 million to $4,178 million in Fiscal Year 2014. Inheritance tax revenues are projected to decrease $83 million, or 28.3% over Fiscal Year 2013. A large decrease in receipts was expected because the first quarter of Fiscal Year 2013 as a result of P.A. 097-0732. This law moved the estate tax collection responsibility from counties to the Illinois State Treasurer as of July 1, 2012. Upon implementing this change, counties submitted $41.8 million of prior-year estate-tax receipts on hand in July 2012. Excluding this one time receipt, collections are expected to decrease due to higher exemptions established by P.A. 097-0636. Exemption levels will increase from $3.5 million in 2012 to $4.0 million in 2013 and after. Fiscal Year 2014 Enacted Budget Transfers In are projected to increase $280 million, or 14.4% over Fiscal Year 2013. This is largely due to a $397 million increase in transfers from the Income Tax Refund Fund associated with excess balances in that fund and as provided by statute.

*Expenditures*

Total State expenditures and Transfers Out to other State funds are estimated to be $35,680 million, an increase of $374 million, or 1.1%, from Fiscal Year 2013 preliminary numbers. State pension contributions are expected to increase $881 million, or 17.3% to $5,988 million over Fiscal Year 2013. To mitigate the increase of pension and healthcare costs, the Enacted Budget reflects reductions to major spending categories, including social service programs, and operational, administrative and personnel expenses within State agencies, totaling $624 million, a 2.5% decrease from Fiscal Year 2013. Transfers Out to other State funds (including debt service) in Fiscal Year 2014 are projected to total $5,060 million, an increase of $117 million or 2.4% from Fiscal Year 2013. This includes a transfer of $601 million to the Healthcare Provider Relief Fund. Using matched Federal funds and the Healthcare Provider Relief Fund monies, the Comptroller will be able to clear over $1 billion of Medicaid payments.

Debt Service Transfers for capital bonds are projected to decrease in Fiscal Year 2014 by $24 million to $527 million from the previous fiscal year.

The State is required to stay below the fiscal year spending cap established under Public Act 96-1496 of $38,305 million for Fiscal Year 2014. If final expenditures were to exceed the spending cap, as determined by the Auditor General of the State, the individual and corporate income tax rates would revert back to 3% and 4.8%, respectively, or prior to the rate increases established by Public Act 96-1496. Enacted Budget Expenditures total $35,680 million or $2,625 million below the cap.

*Cash Flow*

The Fiscal Year 2014 Enacted Budget does not include any non-recurring Financial Sources including any cash-flow borrowings or debt financings. Further, the enacted budget does not dedicate any fiscal year resources to other financial uses or repayments for past interim borrowings, including inter-fund borrowing repayments. As mentioned above, $601 million is authorized to be transferred into the Healthcare Provider Relief Fund to pay Medicaid bills. The transfer will be cycled repeatedly over the course of the fiscal year under the 50% Federal Medical Assistance Percentage match provided to Illinois until maximum federal matching monies are received. This will allow for payment of over $1 billion of outstanding State Medicaid bills reducing the State's backlog of payables, classified under Section 25 Liabilities.

As in the previous fiscal year, the lapse spending period will be extended to December 31, 2014, by P.A. 97-932. Extension of the lapse period allows for the payment of Fiscal Year 2014 bills through the end of December for services incurred prior to the close of Fiscal Year 2014, ending June 30, 2014. The estimated Budget Basis accounts payable at the end of Fiscal Year 2014 is estimated to be $4,186 million.

The Fiscal Year 2014 Enacted Budget projects a $62 million surplus of receipts over disbursements. Any final fiscal year surplus will be used to reduce Accounts Payable.

Fiscal Year 2014 Capital Budget

The total enacted new appropriation for Fiscal Year 2014 from both current revenues and bond funds is $3,410 million. This includes $2,694 million for highway, road, bridge, rail, inland ports and airport construction, as well as $561 million for environmental projects and $13 million for State facilities from current revenues. Collectively, total enacted new appropriations from current revenues sources for Fiscal Year 2014 are $3,269 million, while new bond fund appropriations for aeronautics projects total $71 million, new bond fund appropriations for economic development total $59 million and other new bond fund appropriations total $11 million.

The remainder of the Fiscal Year 2014 Capital Budget contains prior year re-appropriations consisting of both bond funded and current revenue sources totaling $18,783 million. The total bond-financed re-appropriations included in the Fiscal Year 2014 Capital Budget are $11,225 million, which includes General Obligation Bonds in the amount of $9,275 million and Build Illinois Bonds in the amount of $1,950 million. Total capital re-appropriations funded out of current revenues is $7,558 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 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 on June 30, 2009. Reflecting additional liquidity needs, the Comptroller did not repay the Fiscal Year 2010 cash flow borrowing in the amount of $276 million from the Budget Stabilization Fund to the General Revenue Fund by June 30, 2010. This transfer was completed in Fiscal Year 2011. Under Public Act 97-44, the repayment of the Budget Stabilization Fund borrowing in Fiscal Year 2011 was deferred to Fiscal Year 2012 to allow maximum available resources for Medicaid purposes before expiration of the enhanced federal match under ARRA. Though payment was executed in Fiscal Year 2012 the transfer was charged to Fiscal Year 2011 and thus is not presented under Fiscal Year 2012 in Table 1.

**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 CAFR, which includes General Purpose Financial Statements prepared according to GAAP and statements of budgetary fund balances and changes in budgetary fund balances for all fund groups. Under Public Act 97-408, the Comptroller must publish the CAFR for each fiscal year by December 31 of each year or publish unaudited financial statements and a written explanation to State leadership explaining the reasons for the delay beginning with the CAFR for Fiscal Year 2012.

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## TABLE 3
## CASH RECEIPTS AND DISBURSEMENT[1] - GENERAL FUNDS [2]
## FISCAL YEARS 2008-2013
**($ IN MILLIONS)**

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | Preliminary FY 2013 |
|---|---|---|---|---|---|---|
| **Available Balance, Beginning** | **$642** | **$141** | **$281** | **$130** | **$469** | **$40** |
| **Cash Receipts** | | | | | | |
| State Revenues | | | | | | |
| Income Tax | $12,180 | $10,933 | $9,871 | $13,076 | $17,973 | $19,715 |
| Sales Tax | 7,215 | 6,773 | 6,308 | 6,833 | 7,226 | 7,355 |
| Public Utility Tax | 1,157 | 1,168 | 1,089 | 1,147 | 995 | 1,033 |
| Cigarette Tax | 350 | 350 | 355 | 355 | 354 | 353 |
| Inheritance Tax | 373 | 288 | 243 | 122 | 235 | 293 |
| Liquor Gallonage Tax | 158 | 158 | 159 | 157 | 164 | 165 |
| Insurance Tax & Fees | 298 | 334 | 322 | 317 | 345 | 334 |
| Corporate Franchise Tax | 225 | 201 | 208 | 207 | 192 | 205 |
| Investment Income | 212 | 81 | 26 | 28 | 21 | 20 |
| Intergovernmental Transfers | 302 | 253 | 244 | 244 | 244 | 244 |
| Other | 474 | 445 | 462 | 434 | 428 | 489 |
| Total, State Revenues | $22,944 | $20,984 | $19,287 | $22,920 | $28,177 | $30,206 |
| Federal Revenues | | | | | | |
| Medicaid & Social Services | $4,815 | $6,567 | $5,920 | $5,386 | $3,682 | $4,154 |
| Transfers In | | | | | | |
| From Other State Funds[3] | $1,900 | $1,593 | $1,884 | $2,181 | $1,938 | $1,968 |
| **Total Revenues** | **$29,659** | **$29,144** | **$27,090** | **$30,487** | **$33,797** | **$36,328** |
| Short-Term Borrowing | $2,400 | $2,400 | $1,250 | $1,300 | $ - | $ - |
| Tobacco Securitization | - | - | - | 1,250 | - | - |
| Proceeds from Pension Obligation Note Borrowing | - | - | 843 | 224 | - | - |
| **Total Cash Receipts[3]** | **$32,059** | **$31,544** | **$29,183** | **$33,261** | **$33,797** | **$36,328** |
| **Cash Disbursements** | | | | | | |
| Expenditures for Appropriations | | | | | | |
| Operations | $6,906 | $7,332 | $6,381 | $7,113 | $9,202 | $9,889 |
| Awards and Grants | 20,247 | 22,035 | 18,529 | 18,511 | 20,063 | 20,881 |
| Permanent Improvements | 10 | 5 | 2 | - | 5 | 9 |
| Refunds | 18 | 15 | - | - | 12 | 6 |
| Vouchers Payable Adjustment | (208) | (2,392) | (952) | 918 | 87 | (117) |
| Prior Year Adjustments | (14) | (14) | (17) | (22) | (88) | (21) |
| Pension Obligation | - | - | 843 | 224 | - | - |
| Transfers Out | | | | | | |
| Short-Term Borrowing [4] | $2,400 | $1,424 | $2,000 | $1,322 | $ - | $ - |
| Debt Service Funds [5] | 1,132 | 1,102 | 1,313 | 2,396 | 2,071 | 2,103 |
| Other State Funds [3] | 2,069 | 1,897 | 1,235 | 2,460 | 2,874 | 3,464 |
| **Total Cash Disbursements** | **$32,560** | **$31,404** | **$29,334** | **$32,922** | **$34,226** | **$36,214** |
| **Cash Balance, Ending** | **$141** | **$281** | **$130** | **$469** | **$40** | **$154** |

[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] See "INDEBTEDNESS" section for additional information.

[5] Reflects debt service on GO Bonds and interest due on Pension Obligation Notes.

# TABLE 4
# CASH RECEIPTS AND DISBURSEMENTS[1] - ROAD FUND
# FISCAL YEARS 2008-2013
# ($ IN MILLIONS)

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | Preliminary FY 2013 |
|---|---|---|---|---|---|---|
| **Available Balance, Beginning** | **$421** | **$388** | **$418** | **$554** | **$710** | **$789** |
| **Cash Receipts** | | | | | | |
| State Revenues | | | | | | |
| Motor Vehicle & License Fees | 747 | 772 | 762 | 757 | 756 | 742 |
| Certificates of Title | 85 | 77 | 74 | 76 | 79 | 79 |
| Property Sales (City & County) | 72 | 68 | 76 | 80 | 68 | 65 |
| Miscellaneous | 73 | 124 | 558 | 315 | 169 | 45 |
| Total, State Revenues | $978 | $1,041 | $1,471 | $1,228 | $1,072 | $930 |
| Federal Revenues | 1,257 | 1,234 | 1,276 | 1,467 | 1,497 | 1,485 |
| Transfers In | | | | | | |
| Motor Fuel Fund | 335 | 317 | 300 | 307 | 297 | 290 |
| Other Funds | - | - | - | 6 | 22 | 0 |
| **Total Cash Receipts** | **$2,570** | **$2,593** | **$3,047** | **$3,007** | **$2,888** | **$2,705** |
| **Cash Disbursements** | | | | | | |
| Expenditures for Appropriations | 2,312 | 2,285 | 2,575 | 2,403 | 2,438 | 2607 |
| Transfers Out | | | | | | |
| Debt Service Funds [2] | 258 | 245 | 296 | 392 | 333 | 359 |
| Other State Funds | 32 | 35 | 39 | 56 | 39 | 21 |
| **Total Cash Disbursements** | **$2,602** | **$2,564** | **$2,911** | **$2,851** | **$2,809** | **$2,988** |
| **Cash Balance, Ending** | **$388** | **$418** | **$554** | **$710** | **$789** | **$507** |

[1] Based on information from the Office of the Comptroller.

[2] Reflects debt service on GO Bonds.

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TABLE 5
CASH BALANCES BY FUND CATEGORY: FY2004– FY2014[1]
($ IN MILLIONS)

| FUND CATEGORY | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| General Funds | $ 182 | $ 497 | $ 590 | $ 642 | $ 141 | $ 280 | $ 130 | $ 469 | $ 40 | $ 154 | |
| Highway Funds | 522 | 733 | 926 | 747 | 814 | 688 | 805 | 999 | 1,111 | 1,172 | |
| Special State Funds | 2,618 | 2,327 | 2,433 | 2,734 | 2,741 | 2,574 | 2,029 | 2,254 | 2,918 | 3,671 | |
| Bond Financed Funds | 199 | 228 | 533 | 203 | 77 | 68 | 2,226 | 1,449 | 1,460 | 856 | |
| Debt Service Funds | 624 | 648 | 626 | 638 | 649 | 654 | 920 | 1,308 | 1,322 | 1,508 | |
| Revolving Funds | 127 | 91 | 69 | 63 | 63 | 29 | 41 | 41 | 70 | 99 | |
| State Trust Funds | 1,356 | 1,619 | 1,944 | 2,220 | 2,520 | 2,357 | 1,881 | 1,989 | 2,307 | 2,350 | |
| **June 30th amounts (End of Fiscal Year)** | **$ 5,628** | **$ 6,142** | **$ 7,122** | **$ 7,247** | **$ 7,005** | **$ 6,650** | **$ 8,032** | **$ 8,509** | **$ 9,228** | **$ 9,810** | |

| FUND CATEGORY | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| General Funds | $ 319 | $ 292 | $ 600 | $ 597 | $ 761 | $ 188 | $ 207 | $ 166 | $ 263 | $ 154 | $ 162 |
| Highway Funds | $ 655 | $ 559 | $ 722 | $ 787 | $ 814 | $ 860 | $ 880 | $ 649 | $ 1,016 | $ 1,183 | $ 1,198 |
| Special State Funds | $ 3,357 | $ 2,272 | $ 2,197 | $ 2,364 | $ 2,744 | $ 2,508 | $ 2,241 | $ 2,250 | $ 2,461 | $ 3,124 | $ 3,559 |
| Bond Financed Funds | $ 116 | $ 146 | $ 238 | $ 382 | $ 167 | $ 43 | $ 345 | $ 2,810 | $ 822 | $ 860 | $ 1,479 |
| Debt Service Funds | $ 857 | $ 706 | $ 504 | $ 530 | $ 525 | $ 518 | $ 559 | $ 1,188 | $ 1,286 | $ 1,457 | $ 1,437 |
| Revolving Funds | $ 79 | $ 143 | $ 71 | $ 103 | $ 44 | $ 75 | $ 92 | $ 63 | $ 99 | $ 54 | $ 84 |
| State Trust Funds | $ 1,301 | $ 1,467 | $ 1,662 | $ 1,902 | $ 2,386 | $ 2,400 | $ 2,111 | $ 1,746 | $ 1,890 | $ 2,334 | $ 2,476 |
| **September 30th amounts (End of First Quarter)** | **$ 6,684** | **$ 5,585** | **$ 5,993** | **$ 6,666** | **$ 7,441** | **$ 6,590** | **$ 6,436** | **$ 8,871** | **$ 7,837** | **$ 9,167** | **$ 10,395** |

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

## Additional Budget Projections and Financial Information

GOMB is required, pursuant to Public Act 96-1354, to prepare annually and submit to the General Assembly a Three Year Budget Projection. This report is intended to provide additional information on the State's economic and fiscal objectives and fiscal policy intentions for the succeeding three years. GOMB also publishes a quarterly unaudited report of revenues, expenditures, and other financing sources of major State funds. These reports are prepared primarily on a modified accrual basis and are available on GOMB's website provided in "STATE OF ILLINOIS—Website Index." The most recent Three Year Budget Projection was released on January 11, 2013. Please note that for fiscal years 2015 and 2016, the Three Year Budget Projection released on January 11, 2013 does not fully take into account all reductions in federal revenues, including federal Medicaid matching funds that would occur to the extent that the illustrative across-the-board expenditure cuts shown therein were enacted into law. If all reductions in federal revenues had been taken into account, additional expenditure cuts (in excess of the 5.7% and 13.6% in reductions for fiscal years 2015 and 2016, respectively) would have been shown in the Three Year Budget Projection so as to produce a balanced budget for fiscal years 2015 and 2016.

## Tax Review

The State of Illinois levies taxes or fees on several categories of goods, services and revenues. These range from "Automobile Rental Occupation and Use Tax" to "Video Gaming Tax". A complete discussion with history and revenues generated can be found in *The Illinois Tax Handbook for Legislators, 28th Edition April 2012* published annually since 1985 by the Legislative Research Unit. (See "STATE OF ILLINOIS—Website Index" for this link.) The discussion below is excerpted from the Handbook.

The State's revenues are derived from several categories of taxes and fees. Historically, Individual Income Taxes, Sales Taxes and Corporate Income Taxes provide approximately 70% of total State revenues (*i.e.*: not including revenues from the Federal Government and transfers from other State funds). Given the increase in tax rates effective January 1, 2011, in both the individual and corporate tax rates, the percentage of the total represented by these two taxes and by the top three taxes (including Sales Tax) is expected to increase. These three taxes, in order of the level of receipts, will be discussed in turn below. Motor Fuel Taxes, which support some of the State's General Obligation Bonds, are also discussed below.

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*Individual Income Taxes ("**IIT**"):*

The Individual Income Tax is imposed on individuals, trusts and estates. Originally enacted in 1969, IIT rates have been adjusted a number of times as shown below. There is a lengthy list of exemptions that apply to the IIT. At current levels of income, each 1% in IIT produces approximately $3 billion in State revenue.

| From | To | Tax Rate |
|---|---|---|
| July 1, 1969 | January 1, 1983 | 2.50% |
| January 1, 1983 | July 1, 1984 | 3.00% |
| July 1, 1984 | January 1, 1989 | 2.50% |
| January 1, 1989 | January 1, 2011 | 3.00% |
| January 1, 2011 | January 1, 2015 | 5.00% |
| ***January 1, 2015*** | ***January 1, 2025*** | *3.75%* |
| ***January 1, 2025*** | | *3.25%* |
| **Note: Reductions in 2015 and 2025 currently scheduled to take effect as shown.** | | |

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

- 82.7% goes to the General Revenue Fund.
- 10% goes to the Local Government Distributive Fund through January 31, 2011. From February 1, 2011 through January 31, 2015, 6% (plus 6.86% of corporate income tax proceeds).
- 7.3% goes to the Educational Assistance Fund.

*Sales Tax ("**ST**")*:

The Sales Tax is made up of two matching pairs of taxes:

- The Retailers' Occupation Tax and Use Tax.
- The Service Occupation Tax and Service Use Tax.

The Retailer's Occupation Tax is imposed on gross receipts of retailers from sales of tangible personal property in Illinois. The Use Tax is imposed on persons who use tangible personal property in Illinois. The Service Occupation Tax and Service Use Tax are similar to the Retailers' Occupation and Use taxes but apply to tangible property received incidental to buying a service. Illinois does have the so called "Amazon" tax whereby out-of-state sellers who have offices or other facilities within the State (warehouses and reshipping points included) can be required by the Department of Revenue to collect these taxes on sales within the State. (Note: this tax was declared unconstitutional by the Illinois Supreme Court in October, 2013.)

Taxes on sales came into law in 1933 at 2%. They have been increased in stages over the years to the current level of 6.25%. Of this amount, 1.25% is paid to local government. Of the remaining 5%, portions are reserved by statute to support the Build Illinois Bond Program, McCormick

Place Bonds and select other programs (see the information under "REVENUE BONDS") with the balance going to the General Revenue Fund.

*Corporate Income Tax ("**CIT**")*:

The Corporate Income Tax is imposed on the taxable income of corporations, associations, joint-stock companies and cooperatives. The CIT replaced and is supplemented by the Personal Property Tax Replacement Taxes (see PPTRT discussion below). Originally enacted in 1969 at a rate of 4%, the CIT rate has been changed a number of times as reflected below. As with the IIT, various exemptions and deductions apply to the CIT. At current levels, each 1% in CIT produces approximately $500 million in revenue.

| From | To | Tax Rate |
|---|---|---|
| July 1, 1969 | January 1, 1983 | 4.00% |
| January 1, 1983 | July 1, 1984 | 4.80% |
| July 1, 1984 | July 1, 1989 | 4.00% |
| July 1, 1989 | January 1, 2011 | 4.80% |
| January 1, 2011 | January 1, 2015 | 7.00% |
| ***January 1, 2015*** | ***January 1, 2025*** | *5.25%* |
| ***January 1, 2025*** | | *4.80%* |
| **Note: Reductions in 2015 and 2025 currently scheduled to take effect as shown.** | | |

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

- 82.7% goes to the General Revenue Fund.
- 10% to the Local Government Distributive Fund through January 31, 2011. From February 1, 2011 through January 31, 2015, 6.8% (plus 6% of individual income tax proceeds).
- 7.3% goes to the Education Assistance Fund.

*Motor Fuel Taxes ("**MFT**")*:

The Motor Fuel Taxes are imposed on Gasoline ($0.19/gallon), Special Fuels including diesel fuel ($0.215/gallon), levies on Underground Storage Tanks and other environmental impact fees. MFT were first assessed in 1927 at $0.02/gallon and have been increased in stages since then with the last increase in 1996. MFT are distributed as follows:

- $0.025/gallon on special fuels to the State Construction Account Fund.
- $77 million for Grade Crossing Protection Fund, Vehicle Inspection Fund and Emissions Inspection Fund.
- Of the remainder:
    - 45.6% to the State Construction Account Fund (37%) and the State Road Fund (67%).

- o 54.4% to municipalities by population (49.1%), Cook County (16.74%), Other Counties (19.27%) and townships/road districts (15.89%).

*Note 1: Income Tax Refund Fund*:

The Income Tax Refund Fund is funded by a portion of both the CIT (17.5% of gross CIT receipts for 2010 through 2012) and IIT (9.75% of gross receipts in 2010 reduced to 8.75% for 2011 and 2012) to fund tax refunds due to tax filers. The Fiscal Year 2013 Budget has a CIT rate of 13.4% and an IIT rate of 9.5%. The rates are adjusted by formula, which formula can and has frequently been changed by the General Assembly. Priority of payment has been to pay IIT refunds first followed by CIT refunds. If funds are left over in the Income Tax Refund Fund they are returned to the General Revenue Fund. If insufficient funds are available in the Income Tax Refund Fund, CIT refunds are held until sufficient funds become available which may be in a subsequent fiscal year. As of September 30, 2013 there was $3.1 million of unpaid CIT refunds. Part of the Income Tax Refund Fund is also used to "true up" payments due to local governments under the Personal Property Tax Replacement Tax. Should insufficient funds be available in the Income Tax Refund Fund to pay these "true up" payments, they must be paid, by statute, from deposits into the Income Tax Refund Fund in the first quarter of the subsequent fiscal year.

*Note 2: Personal Property Tax Replacement Taxes ("**PPTRT**")*:

The Illinois Constitution of 1970 abolished all ad valorem personal property taxes. In 1979, the General Assembly replaced these taxes on business with the CIT discussed above plus the PPTRT that is earmarked to local governments to replace the ad valorem tax. With a few exceptions, the tax is 2.5% of federal taxable income and is assessed against corporations and sub-chapter S corporations. Originally introduced at 2.85% in 1979 it was reduced to the current level on January 1, 1981.

51.65% of the Personal Property Tax Replacement Tax is distributed to local governments in Cook County based on their shares of personal property tax collections in 1976, with the balance of 48.35% to the local governments in the other 101 counties based on their share of personal property tax collections in 1976 as well.

**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 ("**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 September 30, 2013, the total Protest Fund balance was $155.2 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 recent history of issuing short-term debt. The State has no short-term debt currently outstanding.

**TABLE 6**
**SHORT TERM CERTIFICATES ISSUED**
**($ 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 |

*Hospital Assessment Conduit Financings (issued to provide liquidity to the State's Hospital Provider Fund to make supplemental payments to certain hospitals pursuant to the federally-approved Medicaid State Plan)

### 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 authorized the issuance of multiple capital and special purpose GO Bonds in the aggregate amount of $28,799,577,443 excluding general obligation refunding bonds and $17,562,348,300 of GO Bonds for pension funding purposes. P.A. 98-0094 enacted July 17, 2013 increased authorization of Multi-purpose and Special-purpose bonds to $31,024,577,443.

The following table shows the statutory general obligation bond authorization and all GO Bonds outstanding as of October 1, 2013.

**TABLE 7**
**GENERAL OBLIGATION BONDS**
**(AS OF OCTOBER 1, 2013)**

| Authorization Category | Amount Authorized[1] | Amount Issued | Authorized Unissued | Amount Outstanding |
|---|---|---|---|---|
| Multi-purpose | $30,774,577,443 | $22,409,087,136 | $8,365,490,307 | $9,613,252,675 |
| Special-purpose | 250,000,000 | 246,095,000 | 3,905,000 | 0 |
| Refunding Bonds[2] | 4,839,025,000 | 7,868,564,239 | 1,277,538,504 | 3,561,486,496 |
| **Subtotal** | **$35,863,602,443** | **$30,523,746,375** | **$9,646,933,811** | **$13,174,739,171** |
| Pension Bonds | 17,562,348,300 | 17,166,000,000 | 396,348,300 | 14,686,400,000 |
| **Total** | **$53,425,950,743** | **$47,689,746,375** | **$10,043,282,111** | **$27,861,139,171** |
| Currently Authorized less Refunding | $48,586,925,743 | | | |

1 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.

2 Section 2 of the General Obligation Bond Act (30 ILCS 330/2) states that the aggregate authorized amount of general obligation bonds (not counting authorization for refunding bonds) is $47,092,025,743. The difference is attributable to a miscalculation in the Act with respect to the $698,200,000 authorized amount for coal development described in Section 7 of the Act.

The GOBRI Fund is used to make debt service payments on all outstanding GO Bonds and on short-term certificates issued as described above under "—Short-Term Debt." As of May 28, 2013, a total of $1,420 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. For additional information, see "—Transfers To The GOBRI Fund For Payment of Debt Service" below.

## 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 four 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 |
| Merrill Lynch Capital Services, Inc.** | 54,000,000 |
| AIG Financial Products Corp. | 54,000,000 |
| JPMorgan Chase Bank | 54,000,000 |
| **Total Notional Amount** | **$600,000,000** |

*Deutsche Bank AG credit support
**Merrill Lynch Derivative Products 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. The estimated aggregate mark-to-market valuation for all of the Agreements for the State is ($123.7 million), as of the fiscal year ending June 30, 2013. This estimate is based on the information provided by each counterparty and has not been independently verified by the State.

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## Historical Borrowing

The following table summarizes the level of bond sales from Fiscal Years 2008-2013.

**TABLE 8**
**GENERAL OBLIGATION BOND SALES**
**($ IN MILLIONS)**

| Fiscal year | Capital Improvement | Refunding | Special Purpose | Pension |
|---|---|---|---|---|
| 2008 | 125.0 | - | - | - |
| 2009 | 150.0 | - | - | - |
| 2010 | 2,456.0 | 1,501.3 | 246.1 | 3,466.0 |
| 2011 | 1,200.0 | - | - | 3,700.0 |
| 2012 | 1,375.0 | 1,797.7 | - | - |
| 2013 | 2,150.0 | - | - | - |

## 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 2008-2013.

**TABLE 9**
**GENERAL OBLIGATION BONDS OUTSTANDING**
**($ IN MILLIONS)**

| End of Fiscal year | Capital Improvement | Special Purpose | Pension Funding[1] |
|---|---|---|---|
| 2008 | 9,463.0 | - | 9,950.0 |
| 2009 | 9,051.8 | - | 9,900.0 |
| 2010 | 10,893.9 | 246.1 | 13,316.0 |
| 2011 | 11,428.9 | - | 16,272.8 |
| 2012 | 12,071.4 | - | 15,479.6 |
| 2013 | 13,487.5 | - | 14,686.4 |

[1] Principal of and Interest on the 2003 Pension Bonds 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.

## Future Financings

The State continues to execute on its $31 billion Illinois Jobs Now! capital program. See "STATE FINANCIAL INFORMATION—Discussion and Analysis of Fiscal Years 2011 through 2014–Fiscal Year 2011 (July 2010 – June 2011) - *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 and subject to market conditions.

The State currently anticipates issuing approximately $600 million of mixed tax-exempt and taxable bonds by the end of December 2014, subject to market conditions. No assurance can be given as to the timing, makeup or amount of this issue. The State also periodically reviews its existing debt and has authorization to enter into refunding transactions from time to time as dictated by economic conditions.

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

The State continues to look at financing opportunities for paying or restructuring outstanding vouchers and other unfunded liabilities of the State. No assurances can be given as to whether the General Assembly will pass legislation authorizing such a financing or to the structure and terms of such financing.

## Transfers to the GOBRI Fund for Payment of Debt Service

Debt service of the State's GO Bonds is paid from the GOBRI Fund. The GOBRI Fund receives statutory transfers from various sources including the Road Fund to pay debt service on GO Bonds issued for Transportation Highways purposes under 4(a) of the Bond Act, from the School Infrastructure Fund and the General Revenue Fund to pay debt service on GO Bonds issued for School Construction Law purposes under Section 5(e) of the Bond Act, from the Capital Projects Fund to pay debt service on the GO Bonds issued pursuant to the bonding authorization under the Illinois Jobs Now! capital program and from the General Revenue Fund to pay debt service on GO Bonds issued for all other purposes.

Not including debt service transfers on short-term debt certificates as may have been from time to time, outstanding; the following table shows a history of debt service transfers to the GOBRI Fund from the various funds listed above during Fiscal Year 2008 through Preliminary 2013.

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## TABLE 10
## GENERAL OBLIGATION BONDS
## TRANSFERS TO THE GOBRI FUND FOR PAYMENT OF DEBT SERVICE
## FISCAL YEARS 2009-2013

**($ IN MILLIONS)**

| | 2009 | 2010 | 2011 | 2012 | Preliminary 2013 |
|---|---|---|---|---|---|
| General Revenue Fund | | | | | |
| Capital Bonds | $636.0 | $686.5 | $540.2 | $452.8 | $504.8 |
| Pension Bonds | 466.8 | 563.5 | 1,667.2 | 1,607.2 | 1,552.5 |
| Other[1] | - | 63.0 | 189.0 | - | - |
| Road Fund | 244.6 | 296.2 | 391.6 | 332.9 | 359.3 |
| School Infrastructure Fund | 228.1 | 213.8 | 203.7 | 215.9 | 187.4 |
| Capital Projects Fund | - | 39.7 | 172.8 | 240.8 | 310.1 |
| **TOTAL** | $1,575.5 | $1,862.7 | $3,164.6 | $2,849.6 | $2,914.1 |

[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.

### Measures of Debt Burden

Tables 11, 12 and 13 show various measures of the relative burden of the State's general obligation debt and debt service.

## TABLE 11
## RATIO OF GENERAL OBLIGATION DEBT SERVICE
## TO TOTAL GENERAL AND ROAD FUND APPROPRIATIONS
## FISCAL YEARS 2009-2013 (Preliminary)

| Fiscal Year | Total Appropriations[1] ($ In Millions) | Capital Improvement Bonds Debt Service % of Appropriations | Pension Bonds[2] Debt Service % of Appropriations |
|---|---|---|---|
| 2009 | 36,915 | 3.14% | 1.48% |
| 2010 | 33,004 | 3.43% | 1.65% |
| 2011 | 32,411 | 4.02% | 4.15% |
| 2012 | 36,106 | 3.60% | 4.37% |
| 2013 | 36,836 | 3.82% | 4.24% |

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

[2] Includes 2010 and 2011 Pension Obligation Notes and 2003 Pension Obligation Bonds.

## TABLE 12
## RATIO OF GENERAL OBLIGATION DEBT OUSTANDING TO ILLINOIS PERSONAL INCOME
## FISCAL YEARS 2008-2012[3]

| End of Fiscal Year | Illinois Personal Income[1] ($ In Billions) | Capital Improvement and Refunding Bonds % of Personal Income | Pension Bonds[2] % of Personal Income |
|---|---|---|---|
| 2008 | 559.0 | 1.69% | 1.78% |
| 2009 | 524.7 | 1.73% | 1.89% |
| 2010 | 537.3 | 2.07% | 2.48% |
| 2011 | 568.5 | 2.01% | 2.86% |
| 2012 | 575.2 | 2.10% | 2.71% |

[1] U.S. Department of Commerce, Bureau of Economic Analysis, August 2012.
[2] Includes 2010 and 2011 Pension Obligation Notes and 2003 Pension Obligation Bonds.
[3] Current data as of October 11, 2013

## TABLE 13
## GENERAL OBLIGATION DEBT PER CAPITA – ILLINOIS
## FISCAL YEARS 2008-2012[3]

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Population (in Thousands)[1] | 12,902 | 12,910 | 12,831 | 12,869 | 12,875 |
| Capital Improvement and Refunding Bonds | $733 | $701 | $849 | $959 | $990 |
| Pension Bonds[2] | $771 | $767 | $1,038 | $1,322 | $1,264 |

[1] U.S. Department of Commerce, Bureau of the Census, January 2013.
[2] Includes 2010 Pension Obligation Notes and 2003 Pension Obligation Bonds.
[3] Current data as of October 11, 2013

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# Table 14
## MATURITY SCHEDULE - GENERAL OBLIGATION BONDS
### As of October 01, 2013

| | General Obligation Capital Improvement Bonds | | | | | General Obligation Pension Bonds | | | Total |
|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year June 30 | Multiple Purpose | Refunding | Total Principal | Total Interest | Total Debt Service | Principal | Interest | Debt Service | Combined Total Debt Service |
| 2014 | 326,872,201 | 448,342,406 | 775,214,607 | 715,204,158 | 1,490,418,764 | 893,200,000 | 740,879,544 | 1,634,079,544 | 3,124,498,308 |
| 2015 | 415,856,279 | 431,559,441 | 847,415,720 | 695,123,315 | 1,542,539,034 | 1,093,200,000 | 704,683,372 | 1,797,883,372 | 3,340,422,406 |
| 2016 | 421,116,084 | 413,990,257 | 835,106,341 | 659,692,491 | 1,494,798,831 | 700,000,000 | 656,454,000 | 1,356,454,000 | 2,851,252,831 |
| 2017 | 444,530,167 | 362,361,174 | 806,891,341 | 615,466,898 | 1,422,358,239 | 1,025,000,000 | 622,338,000 | 1,647,338,000 | 3,069,696,239 |
| 2018 | 436,496,167 | 347,296,639 | 783,792,806 | 566,133,457 | 1,349,926,264 | 1,050,000,000 | 568,615,500 | 1,618,615,500 | 2,968,541,764 |
| 2019 | 447,477,317 | 302,655,000 | 750,132,317 | 525,698,532 | 1,275,830,849 | 1,075,000,000 | 511,105,500 | 1,586,105,500 | 2,861,936,349 |
| 2020 | 429,401,629 | 294,720,000 | 724,121,629 | 492,354,029 | 1,216,475,659 | 225,000,000 | 449,550,000 | 674,550,000 | 1,891,025,659 |
| 2021 | 405,466,898 | 302,318,985 | 707,785,883 | 449,126,464 | 1,156,912,347 | 275,000,000 | 438,412,500 | 713,412,500 | 1,870,324,847 |
| 2022 | 458,087,410 | 225,080,000 | 683,167,410 | 402,459,413 | 1,085,626,823 | 325,000,000 | 424,800,000 | 749,800,000 | 1,835,426,823 |
| 2023 | 467,767,922 | 207,210,000 | 674,977,922 | 370,464,550 | 1,045,442,473 | 375,000,000 | 408,712,500 | 783,712,500 | 1,829,154,973 |
| 2024 | 449,898,968 | 184,910,000 | 634,808,968 | 326,954,204 | 961,763,172 | 450,000,000 | 390,150,000 | 840,150,000 | 1,801,913,172 |
| 2025 | 433,228,835 | 134,265,000 | 567,493,835 | 295,223,109 | 862,716,943 | 525,000,000 | 367,200,000 | 892,200,000 | 1,754,916,943 |
| 2026 | 449,990,000 | 128,410,000 | 578,400,000 | 261,461,833 | 839,861,833 | 575,000,000 | 340,425,000 | 915,425,000 | 1,755,286,833 |
| 2027 | 486,685,000 | - | 486,685,000 | 232,566,817 | 719,251,817 | 625,000,000 | 311,100,000 | 936,100,000 | 1,655,351,817 |
| 2028 | 495,260,000 | - | 495,260,000 | 204,162,400 | 699,422,400 | 700,000,000 | 279,225,000 | 979,225,000 | 1,678,647,400 |
| 2029 | 497,610,000 | - | 497,610,000 | 173,726,683 | 671,336,683 | 775,000,000 | 243,525,000 | 1,018,525,000 | 1,689,861,683 |
| 2030 | 442,500,000 | - | 442,500,000 | 146,731,133 | 589,231,133 | 875,000,000 | 204,000,000 | 1,079,000,000 | 1,668,231,133 |
| 2031 | 398,455,000 | - | 398,455,000 | 122,298,367 | 520,753,367 | 975,000,000 | 159,375,000 | 1,134,375,000 | 1,655,128,367 |
| 2032 | 339,575,000 | - | 339,575,000 | 100,472,690 | 440,047,690 | 1,050,000,000 | 109,650,000 | 1,159,650,000 | 1,599,697,690 |
| 2033 | 338,865,000 | - | 338,865,000 | 80,672,647 | 419,537,647 | 1,100,000,000 | 56,100,000 | 1,156,100,000 | 1,575,637,647 |
| 2034 | 372,035,000 | - | 372,035,000 | 58,931,937 | 430,966,937 | - | - | - | 430,966,937 |
| 2035 | 285,240,000 | - | 285,240,000 | 38,803,260 | 324,043,260 | - | - | - | 324,043,260 |
| 2036 | 187,000,000 | - | 187,000,000 | 22,179,900 | 209,179,900 | - | - | - | 209,179,900 |
| 2037 | 139,000,000 | - | 139,000,000 | 13,223,100 | 152,223,100 | - | - | - | 152,223,100 |
| 2038 | 84,000,000 | - | 84,000,000 | 5,962,800 | 89,962,800 | - | - | - | 89,962,800 |
| 2039 | 52,000,000 | - | 52,000,000 | 1,430,000 | 53,430,000 | - | - | - | 53,430,000 |
| 2040 | - | - | - | - | - | - | - | - | - |
| 2041 | - | - | - | - | - | - | - | - | - |
| Total | 9,704,414,876 | 3,783,118,902 | 13,487,533,778 | 7,576,524,186 | 21,064,057,964 | 14,686,400,000 | 7,986,300,916 | 22,672,700,916 | 43,736,758,880 |

Note: Interest on Build America Bonds is shown before deduction of the federal subsidy due to the federal budget sequestration

| | Multi Purpose | Refunding | Pension | Total Principal |
|---|---|---|---|---|
| Total Principal | 9,704,414,876 | 3,783,118,902 | 14,686,400,000 | 28,173,933,778 |
| Less:Current Maturities Paid to Date | 91,162,201 | 221,632,406 | - | 312,794,607 |
| Outstanding Principal Net of Maturities Paid to Date | 9,613,252,675 | 3,561,486,496 | 14,686,400,000 | 27,861,139,171 |

## OTHER GENERAL FUND LIABILITIES

The General Funds of the State also carry other liabilities not detailed in the preceding budget tables, including Tables 1 and 1A. These liabilities have accrued during the current and prior Fiscal Years, but will be paid from future Fiscal Year's appropriations.

One large component of these accrued liabilities consists of payment deferrals under Section 25 of the State Finance Act (30 ILCS 105) for Medical Assistance, comprised mostly of the Medicaid program, and the smaller component of accrued liabilities, Group Health Insurance (herein referred to as "**Section 25 Liabilities**"). The following table provides end of year outstanding Section 25 Liabilities for Fiscal Years 2007 to 2012. The increase in Revenues in Fiscal Year 2013 was used predominately to pay old bills including "Section 25" bills. Additionally, appropriations were passed in the Spring Legislative Session that included $350 million to pay old Group Health bills and $229 million to pay old Department of Human Services bills. As a final note, by legislation, in P.A. 97-691, no more than $100 million per year (not including Medicaid bills incurred but not received at the Department of Healthcare and Family Services), may be deferred under "Section 25". As such, Medicaid must be fully appropriated and spent within each fiscal year.

**TABLE 15**
**SECTION 25 LIABILITIES- FISCAL YEARS 2007-2012**
**($ IN THOUSANDS)**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| **Medical Assistance (comprised mostly of Medicaid)** | | | | | | |
| Healthcare and Family Services (HFS) | $3,184,784 | $2,148,749 | $1,045,951 | $929,475 | $718,385[1] | $2,224,274 |
| Human Services (DHS) | 89,634 | 105,383 | 123,943 | 67,756 | 73,557 | 221,232 |
| Total, Medical Assistance | $3,274,418 | $2,254,132 | $1,169,894 | $997,231 | $791,942 | $2,445,506 |
| **Group Health Insurance Liability Due to Health Insurance Fund** | | | | | | |
| Healthcare and Family Services (HFS) | $93,203 | $113,363 | $321,078 | $523,535 | $1,048,951 | $1,182,875 |
| **Total** | $3,367,621 | $2,367,495 | $1,490,972 | $1,520,766 | $1,840,893 | $3,628,381 |

Source: Based on information from the Illinois Office of the Comptroller and Healthcare and Family Services

[1]The FY11 HFS number does not include $210 million deficit in the Public Aid Recoveries Trust Fund (PARTF). A large amount of PARTF is for non-appropriated spending and should not be included in Section 25 liability, as the Section 25 measurement is only for future year appropriations used to pay prior year bills.

An additional general fund liability is the underfunded Income Tax Refund Fund, as described in the "STATE FINANCIAL INFORMATION—Tax Review" section of this Remarketing Circular. This underfunding results in unpaid business income tax refunds. As of September 30, 2013, there was $3.1 million of unpaid business income tax refunds according to the Illinois Department of Revenue. Table 15A shows the historical data of the Unpaid Income Tax Refund Fund.

## TABLE 15A
## BUSINESS INCOME TAX REFUNDS PAYABLE - FISCAL YEARS ENDING 2008-2013
## (Preliminary)
**($ IN MILLIONS)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| **Unpaid Business Refunds** | $3.5 | $214.2 | $690.9 | $583.9 | $69.0 | $40.0 |

Source: Based on information provided by the Illinois Department of Revenue

## 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 16 identifies the current level of revenue bonds indebtedness and a description of each bond program follows.

## TABLE 16
## REVENUE BONDS
## AS OF OCTOBER 1, 2013
**($ IN MILLIONS)**

| Revenue Bond Program | Bonds Outstanding |
|---|---|
| Build Illinois - Sales Tax Revenue Bonds | 2,798.9 |
| Metropolitan Exposition and Auditorium Authorities - Civic Center Program | 62.7 |
| MPEA[1,2] - McCormick Place Expansion Project and Refunding Bonds | 2,521.2 |
| Illinois Sports Facilities Authority | 433.2 |
| Illinois Certificates of Participation | 11.4 |
| Railsplitter Tobacco Settlement Bonds | 1,380.5 |
| **Total** | **$7,207.9** |

[1] Metropolitan Pier and Exposition Authority ("MPEA")

[2] Includes capital appreciation bonds expressed in the amount of original principal issuance.

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## 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 $5,703.5 million. Public Act 93-839 amended the Build Illinois Bond Act, 30 ILCS 425 *et. seq*., to include certain 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, 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—Expansion Project Bonds

Metropolitan Pier and Exposition Authority ("**MPEA**") is authorized to issue McCormick Place Expansion Project Bonds. These bonds are secured by locally imposed taxes including hotel/motel, restaurant, car rental and airport departure taxes. 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. In July 2012, MPEA issued $855 million of bonds, a portion of which were refunding bonds used defease the remaining $18 million of MPEA Dedicated State Tax Bonds.

This now allows the Build Illinois Bond program to be the sole bonds with first lien on the State Share of Sales Tax.

**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**").

In 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 (30 ILCS 115/0.1 *et seq*.) and (ii) an advance of State hotel tax revenues in the amount of $22.179 million in Fiscal Year 2002, 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 otherwise payable to the City of Chicago under the State Revenue Sharing Act. The State expects that all amounts advanced as described in clause (ii) above will be repaid to the State.

In 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.

**Railsplitter Tobacco Settlement Authority**

In December 2010, the Railsplitter Tobacco Settlement Authority ("**Railsplitter**") issued revenue bonds in the amount of $1.5 billion. After funding Railsplitter's various business purposes, including the funding of a debt service reserve fund, the State received $1.35 billion in exchange for selling to Railsplitter its rights to the payments under the Master Settlement Agreement ("**MSA**") between various states, including the State, and various cigarette manufacturers (the Participating Manufacturers or "**PM**").

The State used these funds to pay outstanding Fiscal Year 2010 obligations, with payments made in December 2010 at the end of the extended lapse period for that fiscal year. The MSA calls for the PMs to make annual payments which are allocated among the various participating states. In recent years, Illinois has received between $275 and $300 million per year from the MSA. These funds have been used to fund a variety of health-related and other programs of the State.

Railsplitter purchased the State's rights to 100% of the MSA payments but, by the terms of the purchase, may keep only the amount of funds required each year for debt service, costs of operations and enforcement of the MSA by the State Attorney General. Any excess amounts ("**Excess MSA Payments**") must be transferred to the State. The funds required by Railsplitter for these purposes are expected to average approximately $150 million per year.

The revenue bonds issued by Railsplitter are secured only by the MSA payments and the State is not obligated in any way to pay principal and interest on these bonds. However, as a result of the Railsplitter bond financing, other revenues will be needed to fund those portions of the health-related and other programs previously funded by the MSA payments now retained by Railsplitter. These revenues could include amounts in the General Revenue Fund. In addition, Railsplitter has a priority claim on all MSA payments to be received by the State. If those amounts should decline in future years, the State's share of any Excess MSA Payments will be correspondingly reduced.

**Certificates of Participation**

Public Act 93-839 provides that the State shall not enter into any third-party vendor or other arrangements relating to the issuance of certificates of participation or other forms of financing relating to the rental or purchase of office or other space, buildings, or land unless otherwise authorized by law. Prior to the passage of Public Act 93-839, the State had issued two series of certificates of participation for the acquisition of real property, $21.0 million in January 1995 and $17.7 million in May 1996. The proceeds of these certificates were used to finance the construction of correctional facilities. The certificates are payable from lease or installment purchase payments which are subject to annual appropriation and are not 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 which provide for presentation of an appropriation request by the Governor to the General Assembly for debt service and other payment deficiencies – see "—Moral Obligation Bonds and Other Moral Obligation Commitments" below, 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" below.

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# TABLE 17
## MATURITY SCHEDULE -- REVENUE BONDS
### Bond Issuances through October 1, 2013

| Year Ending June 30 | Build Illinois | MPEA Expansion Project | Civic Center Program | Sports Facilities Authority | Illinois Certificates of Participation | Railsplitter Tobacco Settlement Bonds | Total Principal | Total Interest | Total Debt Service |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 217,729,306 | 22,384,911 | 10,705,000 | 6,019,695 | 2,440,000 | 70,860,000 | 330,138,912 | 357,899,430 | 688,038,342 |
| 2015 | 215,736,038 | 17,526,860 | 11,415,000 | 6,907,832 | 2,590,000 | 76,820,000 | 330,995,730 | 368,663,952 | 699,659,682 |
| 2016 | 216,790,000 | 18,695,335 | 12,020,000 | 7,773,337 | 2,750,000 | 80,655,000 | 338,683,672 | 355,617,067 | 694,300,739 |
| 2017 | 201,770,000 | 26,177,234 | 5,488,409 | 8,581,095 | 2,915,000 | 84,700,000 | 329,631,739 | 354,639,401 | 684,271,140 |
| 2018 | 187,010,000 | 26,007,384 | 5,668,835 | 6,805,418 | 3,140,000 | 89,040,000 | 317,671,636 | 360,335,328 | 678,006,965 |
| 2019 | 174,020,000 | 35,200,083 | 5,875,462 | 7,039,442 | - | 93,620,000 | 315,754,987 | 367,268,027 | 683,023,014 |
| 2020 | 157,975,000 | 42,054,453 | 6,103,026 | 7,467,726 | - | 98,565,000 | 312,165,205 | 361,617,219 | 673,782,425 |
| 2021 | 127,115,000 | 80,967,400 | 5,405,000 | 7,889,845 | - | 103,900,000 | 325,277,245 | 317,585,416 | 642,862,661 |
| 2022 | 137,575,000 | 54,313,012 | - | 8,307,537 | - | 109,655,000 | 309,850,549 | 348,431,980 | 658,282,529 |
| 2023 | 125,250,000 | 109,057,495 | - | 8,726,172 | - | 107,260,000 | 350,293,667 | 294,794,607 | 645,088,274 |
| 2024 | 117,990,000 | 45,216,436 | - | 9,138,953 | - | 104,945,000 | 277,290,389 | 350,017,668 | 627,308,056 |
| 2025 | 116,795,000 | 48,272,449 | - | 9,521,669 | - | 103,455,000 | 278,044,118 | 338,124,879 | 616,168,996 |
| 2026 | 114,870,000 | 55,469,129 | - | 15,610,731 | - | 102,380,000 | 288,329,860 | 299,926,930 | 588,256,790 |
| 2027 | 106,055,000 | 95,643,545 | - | 32,537,372 | - | 101,275,000 | 335,510,917 | 247,194,304 | 582,705,221 |
| 2028 | 99,950,000 | 126,092,687 | - | 36,970,797 | - | 53,405,000 | 316,418,484 | 226,114,653 | 542,533,137 |
| 2029 | 78,915,000 | 131,355,321 | - | 41,810,210 | - | - | 252,080,531 | 212,427,952 | 464,508,484 |
| 2030 | 75,790,000 | 10,277,690 | - | 52,405,826 | - | - | 138,473,516 | 357,780,285 | 496,253,801 |
| 2031 | 70,790,000 | 9,145,954 | - | 75,355,000 | - | - | 155,290,954 | 337,411,204 | 492,702,158 |
| 2032 | 64,790,000 | 8,140,997 | - | 84,295,000 | - | - | 157,225,997 | 331,405,168 | 488,631,165 |
| 2033 | 64,790,000 | 7,243,844 | - | - | - | - | 72,033,844 | 325,144,328 | 397,178,172 |
| 2034 | 64,790,000 | 6,447,732 | - | - | - | - | 71,237,732 | 322,980,947 | 394,218,679 |
| 2035 | 42,710,000 | 5,737,216 | - | - | - | - | 48,447,216 | 320,794,470 | 369,241,686 |
| 2036 | 42,710,000 | 5,107,150 | - | - | - | - | 47,817,150 | 319,654,468 | 367,471,618 |
| 2037 | 12,500,000 | 4,545,622 | - | - | - | - | 17,045,622 | 318,445,928 | 335,491,550 |
| 2038 | - | 4,043,951 | - | - | - | - | 4,043,951 | 318,462,599 | 322,506,550 |
| 2039 | - | 3,600,523 | - | - | - | - | 3,600,523 | 318,906,027 | 322,506,550 |
| 2040 | - | 3,202,467 | - | - | - | - | 3,202,467 | 319,304,083 | 322,506,550 |
| 2041 | - | 15,686,328 | - | - | - | - | 15,686,328 | 306,885,078 | 322,571,407 |
| 2042 | - | 227,199,617 | - | - | - | - | 227,199,617 | 95,376,027 | 322,575,644 |
| 2043 | - | 36,068,330 | - | - | - | - | 36,068,330 | 286,499,346 | 322,567,675 |
| 2044 | - | 33,701,220 | - | - | - | - | 33,701,220 | 288,866,455 | 322,567,675 |
| 2045 | - | 31,689,253 | - | - | - | - | 31,689,253 | 290,873,422 | 322,562,675 |
| 2046 | - | 29,798,833 | - | - | - | - | 29,798,833 | 292,768,842 | 322,567,675 |
| 2047 | - | 76,946,212 | - | - | - | - | 76,946,212 | 245,620,332 | 322,566,544 |
| 2048 | - | 273,730,000 | - | - | - | - | 273,730,000 | 48,834,378 | 322,564,378 |
| 2049 | - | 287,825,000 | - | - | - | - | 287,825,000 | 34,740,299 | 322,565,299 |
| 2050 | - | 302,750,000 | - | - | - | - | 302,750,000 | 19,705,294 | 322,455,294 |
| 2051 | - | 35,706,739 | - | - | - | - | 35,706,739 | 286,864,490 | 322,571,229 |
| 2052 | - | 168,218,298 | - | - | - | - | 168,218,298 | 154,351,702 | 322,570,000 |
| Total | 2,834,415,344 | 2,521,246,710 | 62,680,732 | 433,163,657 | 13,835,000 | 1,380,535,000 | 7,245,876,443 | 11,102,333,982 | 18,348,210,425 |

Note: Columns may not add due to rounding.

Amounts shown under Total Interest for 2031 and thereafter are comprised largely of accreted principal amount on capital appreciation bonds issued by MPEA.

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## Moral Obligation Bonds and Other Moral Obligation Commitments

Currently, six 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 18**
**MORAL OBLIGATION ESTIMATED DEBT[1]**
**ESTIMATED AS OF October 1, 2013**
**($ IN MILLIONS)**

| Issuing Authority | Moral Obligation Bonds Outstanding |
|---|---|
| Southwest Illinois Development Authority | $14.2 |
| Upper Illinois River Valley Development Authority | 15.3 |
| Illinois Finance Authority[2] | 79.4 |
| Illinois Housing Development Authority | 0.3 |
| **Total** | **$109.2** |

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

[2] Amount reflects outstanding moral obligation bonds issued by the IFA and certain of the predecessor authorities that were consolidated into the IFA when it was created on March 1, 2004.

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.

College Illinois, the State's Prepaid Tuition Program, is operated by the Illinois Student Assistance Commission ("**ISAC**"). College Illinois is supported by a moral obligation commitment of the State. It has recently reported an underfunded liability of $467 million. Should no additional prepaid tuition contracts be sold under the College Illinois program, actuary's estimate that the State will need to provide additional funds to College Illinois to support its obligations. These additional funds would need to be provided starting in 2021 and concluding in 2037 and, depending upon which actuarial assumptions are used, could total in excess of $1.2 billion. For additional information, see ISAC's College Illinois website in "STATE OF ILLINOIS—Website Index." ISAC, in conjunction with the General Assembly and the Governor, are in discussions as to how to address the projected shortfall. No assurances as to what solution, the timing of the solution or the ultimate cost to the State, if any, can be made at this time.

**Agricultural Loan Guarantee Program**

The 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 Loan 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 August 15, 2012, the available balances in the Reserve Funds held by the IFA were $10 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, 2011, the IFA Loan Programs secure: (i) $16.6 million in Illinois Agricultural Loans and (ii) $18 million in Illinois Farmer & Agribusiness Loans. In total, 85% of these two Loan Programs or $29.4 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.

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## CERTAIN INVESTMENT CONSIDERATIONS

PURCHASE AND OWNERSHIP OF THE BONDS IS SUBJECT TO A VARIETY OF RISKS. EACH PROSPECTIVE INVESTOR IN THE BONDS IS ENCOURAGED TO READ THIS REMARKETING CIRCULAR IN ITS ENTIRETY. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE INVESTMENT CONSIDERATIONS DESCRIBED BELOW WHICH, AMONG OTHER THINGS, COULD AFFECT THE FINANCIAL CONDITION OF THE STATE AND COULD ALSO AFFECT THE MARKETABILITY AND/OR MARKET PRICE OF THE BONDS AFTER THEY ARE ISSUED TO AN EXTENT THAT CANNOT NOW BE DETERMINED. THE CONSIDERATIONS DESCRIBED BELOW ARE NOT ALL OF THE INVESTMENT CONSIDERATIONS ASSOCIATED WITH THE PURCHASE AND OWNERSHIP OF THE BONDS. NEITHER THE INCLUSION NOR OMISSION OF CONSIDERATIONS FROM THIS SECTION, NOR THE ORDER IN WHICH THEY ARE PRESENTED, NECESSARILY REFLECTS THE RELATIVE IMPORTANCE OF THE VARIOUS INVESTMENT CONSIDERATIONS.

### Pension Systems

The 98th General Assembly adjourned its Spring 2013 legislative session on May 31, 2013, without passing legislation to reform the State's public pension systems. While the Illinois Senate and the Illinois House of Representatives each passed its own version of one or more pension reform bills, the General Assembly as a whole did not agree on any bill and, accordingly, did not pass pension reform legislation as a body. In July 2013, the General Assembly formed a conference committee composed of five members of the Senate and five members of the House to consider and propose pension reform legislation for consideration by the General Assembly. There can be no assurances regarding whether or when pension reform legislation may be enacted, the effective date of any such legislation or its substance, or whether such legislation, if challenged as unconstitutional once enacted, will be upheld as constitutional by the Courts. Without enacted and implemented pension reform legislation, the Statutory Funding Plan and current benefit calculation provisions will continue in force, which could materially and adversely affect the State's financial condition. See "PENSION SYSTEMS—Current Status of Pension Reform Legislation."

### Fiscal Year 2014 Budget

The Fiscal Year 2014 Budget is based on expectations and assumptions of the State that are subject to a number of known and unknown risks and uncertainties, many of which are beyond the State's control. These include, among others, general economic conditions, demographic trends, natural disasters, terrorism, and reductions in or elimination of federal programs which may adversely affect the transfer of funds from the Federal government to the State. Accordingly, the expectations and assumptions of the State upon which the Fiscal Year 2014 Budget is based may not be realized and the State's financial condition could be materially adversely affected. See "STATE FINANCIAL INFORMATION—Fiscal Year 2014 (July 2013 - June 2014) Budget."

### Reduction of Income Tax Rates

Public Act 96-1496, signed into law by the Governor on January 11, 2011, increased the rates of the State individual income tax from 3.0% to 5.0% and of the State's corporate income tax from 4.8% to 7.0%. Under Public Act 96-1496, these rates decline automatically to 3.75% and 5.25%, respectively, effective on January 1, 2015. If no further legislative action is taken, it is expected that this reduction in rates will reduce annual income tax revenues by between \$4 billion and \$5 billion, which could materially adversely affect the State's financial condition beginning in Fiscal Year 2015. See "STATE FINANCIAL INFORMATION—Tax Review."

## 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**").

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, the State provides the majority of contributions for State employees combined with contributions from trust and federal funds. For GARS and JRS, the State provides the sole employer contribution to the Retirement Systems. For TRS, the 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. Prior to the passage of Public Act 97-694, each Retirement System was required to certify to the State the amount necessary to pay the Required Annual Statutory Contribution (as defined below) by November 15 (December 15 for GARS) of the current fiscal year for inclusion in the Governor's budget for the following fiscal year. As a result of the passage of Public Act

97-694, which became effective in June 2012, the process for certification by the Retirement Systems of the Required Annual Statutory Contributions was revised as follows: Beginning November 1, 2012, the Board of each Retirement System is required, on or before November 1 of each year, to submit a proposed certification to the newly created position of State Actuary of the amount necessary to pay the Required Annual Statutory Contribution. The position of State Actuary is within the Office of the Auditor General and responsible for reviewing actuarial practices, assumptions, and valuations of the actuaries of the Retirement Systems. In November of each year, the Retirement Systems are required to prepare preliminary reports. By January 1 of each year, the State Actuary is required to issue a preliminary report providing a review of the actuarial assumptions used in the proposed certification by the Retirement Systems and recommend any changes for consideration. The Board of each Retirement System must consider all recommendations of the State Actuary prior to providing a final certification to the State of the Required Annual Statutory Contribution on or before January 15 of each year, beginning January 15, 2013. This Remarketing Circular reflects the most current, final reports of the Retirement Systems and Auditor General. As such, the preliminary reports of the Retirement Systems prepared in November 2013 are not reflected in this Remarketing Circular.

The State Actuary's Fiscal Year 2012 report on the actuarial assumptions and valuations of the Retirement Systems is available on the State Auditor General's website. See "STATE OF ILLINOIS—Website Index." The assumptions contained in the 2012 Actuarial Valuation reports of the Retirement Systems were affirmed by the State Actuary; however, recommendations were made for additional disclosure to the 2012 Actuarial Valuations as well as certain changes for future Actuarial Valuations. The Board of each Retirement System must consider all recommendations of the State Actuary, however, no assurance can be given any recommendations will be adopted. The responses of each System on the recommendations of the State Actuary are contained in Appendix C of the aforementioned report. Please see "APPENDIX D—SUMMARY OF RECOMMENDATIONS FROM THE STATE ACTUARY REGARDING THE ILLINOIS PENSION SYSTEMS" in this Remarketing Circular for the full list of recommendations by the State Actuary to each Retirement System.

In the event that the General Assembly fails to appropriate the amount certified by the Retirement Systems, the Pension Code (40 ILCS 5/ *et. seq*.) requires payments 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 described in this Remarketing Circular; see "—Determination of Employer Contributions—*The Actuarial Evaluation*") through a "Continuing Appropriation." 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 Funds. If such funds are not available, the State could fail to meet its payment obligation or be forced to make such payment from another source. A failure by the State to meet its payment obligations may result in increased investment risk for bondholders. In addition, 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 been funded at less than the Actuarilly Required Contribution level, and the effect of a sale of the Retirement Systems' assets to pay benefits, see "—History of Contributions to the Retirement Systems" below.

**Background Information Regarding the Retirement Systems**

With regard to the following, except "Excluded Information" defined below, the information contained in this Remarketing Circular relies on materials produced by the Retirement Systems, their independent accountants and their independent actuaries (the "**Source Information**"). The information presented in this Remarketing Circular is presented on the basis of the Source Information. The State has not independently verified the Source Information and makes no representations nor expresses any opinion as to the accuracy of the Source Information. "Excluded Information" means information contained under the following sub-captions: "—Recent Reports and Other Developments Regarding the Retirement Systems," "—Pension Stabilization Legislation and Other Proposals," "—SEC Order," and "—Pension Disclosure Policies and Procedures."

Furthermore, where the tables in this disclosure present aggregate information regarding the Retirement Systems, specifically in Tables 23-33, such combined information results solely from the arithmetic calculation of numbers compiled from the Source Information and may not conform to the requirements for the presentation of such information as may be required by the Governmental Accounting Standards Board ("**GASB**") or the Statutory Funding Plan.

The State is obligated to make contributions to the Retirement Systems as set forth in the Pension Code. See "—Actuarial Methods—*Actuarial Accrued Liability*" below. In addition, the Retirement Systems' members make monthly/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 2008 through 2012, see Tables 24 through 28.

The comprehensive annual financial reports ("**CAFR**") of the Retirement Systems for the fiscal year ending June 30, 2012, and the Actuarial Valuations of the Retirement Systems for the fiscal year ending June 30, 2012, are incorporated by reference. These documents for each retirement system are available upon written request to the respective Retirement System. (For contact information for each of the Retirement Systems, see "STATE OF ILLINOIS—Website Index" above).

The *Teachers' Retirement System*, TRS, is a cost-sharing, multiple-employer, public employee defined-benefit pension plan. TRS is governed by a 13-member Board of Trustees, consisting of the State Superintendent of Education, six trustees appointed by the Governor with the advice and consent of the Senate, four trustees elected by contributing TRS members, and two trustees elected by TRS annuitants. One appointed trustee position is currently vacant. All trustees except for the State Superintendent of Education serve 4-year staggered terms.

TRS provides coverage to teachers employed by public school districts in the State (excluding Chicago). Although most of TRS's covered employees are not employees of the State, approximately 95% of the funding for TRS is the responsibility of the State. TRS receives contributions from 864 local school districts, 138 special districts and 22 other State agencies. However, the contributions of individual school districts, special districts and State agencies are made at a minimal level. As of June 30, 2012, TRS had a total membership of 393,152, consisting of 165,872 active members, 121,781 inactive members entitled to benefits but not yet receiving them, and 105,499 retirees and beneficiaries currently receiving benefits. Members contribute 9.4% of their salary to TRS. Certain school districts provide for member contributions on behalf of their employees. This is subject to each district's collective bargaining agreement. 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 is governed by an 11-member Board of Trustees, consisting of the Chairperson of the Illinois Board of Higher Education, four trustees appointed by the Governor with the advice and consent of the Senate, four trustees elected by contributing SURS members and two trustees elected by SURS annuitants. All trustees except for the Chairperson of the Illinois Board of Higher Education serve 6-year staggered terms.

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, 2012, SURS had a total membership of 217,282, consisting of 81,156 active members (of which 10,100 are in the Self-Managed Plan, as defined below), 81,341 inactive members entitled to benefits but not yet receiving them (of which 7,307 are in the Self-Managed Plan described below), and 54,785 retirees and beneficiaries currently receiving benefits (of which 253 were in the Self-Managed Plan). 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 which provide a predetermined level of benefits to the employee, only employer contributions to the plan are assured. Members contribute 8.0% of their gross earnings.

The *State Employees' Retirement System*, SERS, is a single-employer, public employee defined-benefit pension plan. SERS is governed by a 13-member Board of Trustees, consisting of the Illinois Comptroller, six trustees appointed by the Governor with the advice and consent of the Senate, four trustees elected by the SERS members, and two trustees elected by the SERS retirees. One appointed trustee position is currently vacant. All trustees except for the Comptroller serve 5-year staggered terms.

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 Senate may elect to become members of SERS. As of June 30, 2012, SERS had a total membership of 148,331, consisting of 62,729 active members, 22,549 inactive members, 62,788 retirees and beneficiaries currently receiving benefits, and 265 members eligible for deferred 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. JRS is governed by a 5-person Board of Trustees, consisting of the State Treasurer, the Chief Justice of the Supreme Court, and 3 participating judges who are appointed by the Supreme Court. The 3 participating judges serve 3-year terms.

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, 2012, JRS had a total membership of 2,039, consisting of 968 active members, 15 inactive members, and 1,056 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. Under certain circumstances, 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, under certain circumstances, the Clerk and Assistant Clerk of the House and the Secretary and Assistant Secretary of the Senate. GARS is governed by a 7-member Board of Trustees, consisting of the President of the Senate (or his designee), 2 members of the Senate appointed by the President of the Senate; 3 members of the House of Representatives appointed by the Speaker of the House; and one person elected from the member annuitants under rules prescribed by the Board of Trustees. All appointed trustees serve 2-year terms while the elected trustee serves a 4-year term.

Participation in GARS is optional. As of June 30, 2012, GARS had a total membership of 669, consisting of 176 active members, 79 inactive members, and 414 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 60,325 active members of SERS, 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 investments of SERS, JRS and GARS. Additional information on each Retirement System's investments and investment management may be found on such Retirement System's website provided in "STATE OF ILLINOIS—Website Index."

As of June 30, 2012, the membership in each of the Retirement Systems and the required membership contributions as a percentage of member salary were as follows:

## TABLE 19 - MEMBERSHIP AND MEMBER CONTRIBUTIONS

| Retirement System | Active Members | Inactive | Retirees and Beneficiaries | Total | Member Contribution(1) |
|---|---|---|---|---|---|
| TRS | 165,872 | 121,781 | 105,499 | 393,152 | 9.40% |
| SURS | 81,156 | 81,341 | 54,532 | 217,029 | 8.0% - 9.5%(2) |
| SERS(3) | 62,729 | 22,549 | 62,788 | 148,066 | 4.0% - 12.5%(4) |
| JRS | 968 | 15 | 1,056 | 2,039 | 11.00% |
| GARS | 176 | 79 | 414 | 669 | 11.50% |
| Total | 310,901 | 225,765 | 224,289 | 760,955 | |

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2012.

(1) Represents the percentage of salary a member is required to contribute annually to the respective Retirement System under the pension code. Certain school districts provide for member contributions on behalf of their employees.

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

(3) Excludes SERS members eligible for deferred benefits totaling 265 for fiscal year ending June 30, 2012.

(4) 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.

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Please see "APPENDIX B—SUMMARY OF CERTAIN INFORMATION REGARDING THE ILLINOIS PENSION SYSTEMS" in this Remarketing Circular for summaries of the benefit formulas and benefit maximums for each of the Retirement Systems.

**Determination of Employer Contributions**

*Actuaries and the Actuarial Process*

Under the Pension Code, the required employer contributions to 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 actuarial reports also include information pursuant to the GASB standards 25 and 27.

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.

Each Actuarial Valuation must be accompanied by a statement from an actuarial firm that, to the best of its knowledge, the Actuarial Valuation is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice ("**ASOP**") issued by the Actuarial Standards Board, and with applicable statutes. 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 to the GASB pension standard, the Required Annual Statutory Contribution certified to the State by the actuary in the Actuarial Valuation differs from the Actuarially Required Contribution,[2] as defined below, which would be required under GASB pension standard. The differences between GASB's requirements and the State's statutory requirements are discussed in "—Actuarial Methods—*Actuarial Accrued Liability*" below.

*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

[2] GASB pronouncements refer to this concept as the Annual Required Contribution. In this Remarketing Circular, this concept is referred to as the Actuarially Required Contribution and differs from the State's statutorily defined concept of the Required Annual Statutory Contribution. The Actuarially Required Contribution, under GASB standards, is the amount required to pay the employer's normal cost plus the cost to amortize the plan's UAAL over a period of no more than 30 years. The method of determining the State's Required Annual Statutory Contribution is put forth in the applicable statutes of the Illinois Pension Code (40 ILCS 5/) for each State pension system.

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 future benefits that are not matched by current plan assets. In addition, the actuary will compute the "Funded Ratio," which is the result obtained by dividing the Actuarial Value of Assets by the Actuarial Accrued Liability. The Funded Ratio and the UAAL are used to measure the financial health of a pension plan. An increasing UAAL or a decreasing Funded Ratio from year to year 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. A 100% Funded Ratio means existing actuarial assets are sufficient to pay the present value of currently estimated future benefits to be paid over time.

The actuaries use the Actuarial Accrued Liability, the Actuarial Value of Assets and the UAAL to compute the Required Annual Statutory Contribution for each Retirement System in accordance with the Pension Code. The Pension Code sets forth the manner of calculating the Required Annual Statutory Contribution under the Statutory Funding Plan. The Statutory Funding Plan requires the State to contribute annually an amount equal to a constant percent of payroll necessary to allow the Retirement Systems to achieve a 90% Funded Ratio by Fiscal Year 2045, subject to any revisions necessitated by actuarial gains or losses, or actuarial assumptions.

*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 provisions 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 currently less than the contribution that would otherwise be determined in accordance with GASB standards (the "**Actuarially Required Contribution**"). The Actuarially Required Contribution consists of three 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," (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), and (3) one year's interest, calculated at the Assumed Actuarial Rate, on the unfunded pension liability, defined as the Net Pension Obligation (as defined below). As discussed above, the Statutory Funding Plan requires the determination of the Required Annual Statutory Contribution by calculation of a constant 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 Retirement Systems use the following actuarial methods to calculate the Actuarial Value of Assets and the Actuarial Accrued Liability.

*Actuarial Value of Assets*

The Actuarial Value of Assets is a measure of the value of the assets available in the pension plan to pay benefits. Beginning with Fiscal Year 2009, the State amortizes investment gains and losses on such assets equally over a five-year period when determining the Actuarial Value of Assets. This method of valuation is called the "Asset Smoothing Method." Under the Asset Smoothing Method, the State will recognize in the current year 20% of the investment gain or loss incurred in each of the previous five years. State law provides for application of the Asset Smoothing Method prospectively, beginning with Fiscal Year 2009. The Asset Smoothing Method, which is an approved method for determining the Actuarial Value of Assets under GASB 25, prevents extreme fluctuations in the Actuarial Value of Assets, the UAAL, the Funded Ratio, and the Required Annual Statutory Contribution that may otherwise occur as a result of market volatility. Asset smoothing amortizes each year's gains and losses over a five-year period, and thus the current Actuarial Value of Assets does not reflect the fair value at the time of measurement. As a result, presenting the Actuarial Value of Assets as determined under the Asset Smoothing Method will provide a different presentation of the current financial position of a pension plan than would a method that immediately recognizes investment gains and losses annually. Although not contemplated by State law, other public sector pension plans have adopted a variation of the Asset Smoothing Method whereby a maximum spread or "corridor" is imposed on the difference between the Actuarial Value of Assets and the fair value of assets.

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 delaying the timing of the recognition of the investment losses suffered by the Retirement Systems as a result of the 2008-2009 market downturn. The assets of the Retirement Systems declined by 24.9% on a fair value basis during Fiscal Year 2009, however, through the application of the Asset Smoothing Method, the actuarial value of assets decreased by only 1.1%. 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%. Tables 24 through 28, set forth below, reflect the Retirement Systems' Funded Ratio both measured at fair value and based on application of the Asset Smoothing Method.

*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 two significant respects.

First, the goal of the Statutory Funding Plan is to amortize the portion of the UAAL necessary for the Retirement Systems' Funded Ratio to reach 90% over a 50-year closed period, commencing in Fiscal Year 1996 and ending in Fiscal Year 2045, whereas GASB 25 allows amortization of the entire UAAL over a 30-year open or closed amortization period. Second, the Statutory Funding Plan allowed the State to contribute less than the level percent of payroll necessary to reach the desired funding level for the first 15 years of the Statutory Funding Plan (the "ramp-up" period discussed below, which ended at the conclusion of Fiscal Year 2010). In contrast, GASB 25 does not permit a ramp-up to full contributions.

A closed amortization period means that the UAAL is amortized over a fixed number of years such that the UAAL will decrease to a legally defined target (which, for the State, is a 90% Funded Ratio 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, a 33-year amortization period was used to calculate the Required Annual Statutory Contribution for Fiscal Year 2013, inclusive, while a 32-year amortization period was used to calculate the Required Annual Statutory Contribution for Fiscal Year 2014, inclusive. 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. 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 it is the intent to have the UAAL decrease in each year, the amount of time necessary to fully amortize the UAAL would be far longer as it is recalculated each year. The actual results of both an open or closed amortization schedule will be impacted by any changes in actuarial assumptions and/or the performance of the asset portfolio. These differences between GASB 25 and the Statutory Funding Plan account for the variation between the Required Annual Statutory Contribution and the Actuarially Required Contribution. See "—Funded Status" below.

*Net Pension Obligation*

GASB 25 calls for the calculation and disclosure of the Net Pension Obligation (the "**NPO**") in the financial statements of the pension plan, while GASB 27 calls for that amount to be disclosed in the financial statements of the employer. With respect to the Retirement Systems, the NPO is defined as the cumulative value of the annual differences between the State's actual contributions and the Actuarially Required Contributions, starting at the point in time the State adopted generally accepted accounting principles for pension accounting and reporting as promulgated by GASB. In any year that the State contributes less than the Actuarially Required

Contribution, the difference between the actual contribution and the Actuarially Required Contribution is the addition to the NPO for that year.

Table 30 presents a ten-year history of the Net Pension Obligation, as reported in either the CAFRs or the Valuation Reports of each Retirement System, as calculated in accordance with GASB 25.

The unfunded pension liability reported each year as the UAAL is materially greater than the NPO for that corresponding year. As noted above, the Required Annual Statutory Contribution and the actuarial valuation reports are calculated based upon the UAAL as opposed to calculation based on the NPO measure of the unfunded pension liability.

On June 25, 2012, GASB approved GASB 67 and 68, which will impact the accounting and reporting of pension plan assets and liabilities in which state and local governments participate. Major changes include: (1) the recognition of a Net Pension Liability as the unfunded portion of the employer's pension obligation in lieu of the NPO valuation which would no longer be required; (2) full pension costs would be shown as expenses regardless of actual contribution levels and would be measured by a significantly different method than by the use of the Actuarially Required Contribution, which calculation would no longer be required; (3) the rate used to discount projected benefit payments will be based on a single rate that reflects the long-term expected rate of return for plan assets sufficient to pay projected benefit payments and a 20-year, high grade municipal bond index rate for assets that fall short of expected future benefit payments; and (4) additional disclosure in the notes and supplementary sections of the employer's basic financial statements, including description of the benefit plan and actuarial assumptions, changes and components of the Net Pension Liability and plan contribution schedules. In addition, GASB 67 and 68 will call for the accounting and reporting of pension plan assets and liabilities on an Entry Age Normal cost method, which is different from the Statutory Funding Plan that uses the Projected Unit Credit ("**PUC**") cost method. GASB 67 will be effective for fiscal years beginning after June 15, 2013 and GASB 68 will be effective for fiscal years beginning after June 15, 2014.

**Actuarial Assumptions**

<u>General</u>

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 will cause an increase or decrease in the Actuarial Value of Assets, the Actuarial Accrued Liability, the UAAL, the Funded Ratio or the Actuarially Required Contribution. Certain of these assumptions are summarized in Table 20. For additional information on these assumptions, please see each Retirement System's Actuarial Valuation.

**TABLE 20 - CERTAIN ACTUARIAL ASSUMPTIONS USED BY THE RETIREMENT SYSTEMS**

| | TRS | SURS | SERS | GARS | JRS |
|---|---|---|---|---|---|
| Actuarial Cost Method[(1)] | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Investment Rate of Return[(2)] | 8.00% | 7.75% | 7.75% | 7.00% | 7.00% |
| Assumed Inflation Rate | 3.25% | 2.75% | 3.00% | 3.00% | 3.00% |
| Post-Retirement Increase | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Projected Salary Increases | 6.00%[(3)] | 3.75% to 12.0%[(4)] | 4.00% to 8.87%[(5)] | 4.00%[(6)] | 4.00%[(6)] |

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2012.

(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) In fiscal year ending June 30, 2010, SURS and SERS reduced their assumed investment rates of return from 8.5% to 7.75% and JRS reduced its assumed rate from 8.0% to 7.0%. GARS reduced their assumed investment rate of return from 8.0% to 7.0% in fiscal year ending June 30, 2011. TRS reduced its assumed investment rate of return from 8.5% to 8.0% in fiscal year ending June 30, 2012.

(3) Represents a composite of projected salary increases which vary between 5.0% (at age 60) and 10.15% (at age 20). Includes inflation (3.25%) and real wage growth (0.75%) assumptions.

(4) Each member's compensation is assumed to increase by 3.75% each year, 2.75% reflecting salary inflation and 1.00% reflecting standard of living increases. For members with less than 34 years of service, an additional projected salary increase factor is added to the assumed rate.

(5) Rates depend on member age.

(6) Includes inflation component of 3.0% 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. SURS, SERS, GARS and JRS last conducted an actuarial experience review in 2011, and TRS conducted its experience review in 2012. The purpose of the experience review is to determine the reasonableness of the actuarial assumptions regarding mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the Retirement Systems. Pursuant to the passage of Public Act 97-694 (see "PENSION SYSTEMS—General" above), the State Actuary is required to review future actuarial experience reviews submitted by the Retirement Systems and deliver a report on the reasonableness of the actuarial assumptions contained therein to the Board of the applicable Retirement System. Based upon the results of this review, the board of the applicable Retirement System may revise 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 rates of return to 7.75% and JRS reduced its assumed investment rate of return to 7.00% for the Actuarial Valuations issued for the fiscal year ending June 30, 2010. GARS reduced its assumed investment rate of return to 7.00% for the Actuarial Valuations issued for the fiscal year ending June 30, 2011. TRS reduced its assumed investment rate of return to 8.00% for the Actuarial Valuation issued for the fiscal year ending June 30, 2012. The reductions previously approved by SURS, SERS, JRS and GARS, and the reduction approved by TRS in Fiscal Year 2012, have the effect of increasing the UAAL and the Required Annual Statutory

Contribution as the Retirement Systems assume that plan assets will produce less income to pay projected benefits. Due to the volatility of the marketplace, however, the actual rate of return earned by the Retirement Systems on their assets may be higher or lower than the assumed rate. See Table 21 for the rates of return on the Retirement Systems' assets for the last ten fiscal years. Changes in the Retirement Systems' assets as a result of market performance will lead to an increase or decrease in the UAAL and the Funded Ratio. As a result of the State's adoption of the Asset Smoothing Method, however, only a portion of these increases or decreases will be recognized in the current year, with the remaining actuarial gain or loss spread over the remaining four years. See "—Actuarial Methods—*Actuarial Value of Assets*" above.

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. Although positive investment returns were achieved in recent fiscal years, no assurance can be given that negative trends in investment performance will not occur again in subsequent fiscal years, thereby resulting in a reduction in the Funded Ratio and a corresponding increase in the UAAL.

**TABLE 21 - INVESTMENT RATES OF RETURN, 2003-2012**

| | TRS | | SURS | | SERS | | GARS | | JRS | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Fiscal Year** | *Assumed* | *Actual* | *Assumed* | *Actual* | *Assumed* | *Actual* | *Assumed* | *Actual* | *Assumed* | *Actual* |
| 2003 | 8.5% | 4.9% | 8.5% | 2.9% | 8.5% | 0.3% | 8.0% | 0.3% | 8.0% | 0.3% |
| 2004 | 8.5% | 16.5% | 8.5% | 17.0% | 8.5% | 16.4% | 8.0% | 16.4% | 8.0% | 16.4% |
| 2005 | 8.5% | 10.8% | 8.5% | 10.4% | 8.5% | 10.1% | 8.0% | 10.1% | 8.0% | 10.1% |
| 2006 | 8.5% | 11.8% | 8.5% | 11.7% | 8.5% | 11.0% | 8.0% | 11.0% | 8.0% | 11.0% |
| 2007 | 8.5% | 19.2% | 8.5% | 18.3% | 8.5% | 17.1% | 8.0% | 17.1% | 8.0% | 17.1% |
| 2008 | 8.5% | -5.0% | 8.5% | -4.5% | 8.5% | -6.2% | 8.0% | -6.2% | 8.0% | -6.2% |
| 2009 | 8.5% | -22.7% | 8.5% | -19.7% | 8.5% | -20.1% | 8.0% | -20.1% | 8.0% | -20.1% |
| 2010 | 8.5% | 12.9% | 7.8% | 15.0% | 7.8% | 9.1% | 8.0% | 9.1% | 7.0% | 9.1% |
| 2011 | 8.5% | 23.6% | 7.8% | 23.8% | 7.8% | 21.7% | 7.0% | 21.7% | 7.0% | 21.7% |
| 2012 | 8.0% | 0.8% | 7.8% | 0.5% | 7.8% | 0.2% | 7.0% | 0.2% | 7.0% | 0.2% |
| 5-Yr. Avg. Return | - | 0.7% | - | 1.9% | - | 0.1% | - | 0.1% | - | 0.1% |
| 10-Yr Avg. Return | - | 6.4% | - | 6.8% | - | 5.4% | - | 5.4% | - | 5.4% |

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2003 through June 30, 2011. Certain information was provided by the Retirement Systems.

## 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 constant percent of payroll necessary to cause the assets of the Retirement Systems to equal 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. The constant percent of payroll is revised and adjusted each year based on modifications to the actuarial assumptions and changes in the value of the asset portfolio. 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. These contributions were not sufficient to cover the full Actuarially Required Contributions, determined under GASB, for such fiscal years. As a result, the UAAL continued to grow during the ramp-up period. See "—Determination of Employer Contributions—*Actuaries and the Actuarial Process*" and "—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 in Fiscal Year 2004. As a result, the State funded approximately 25% of its Fiscal Year 2003 Required Annual Statutory Contribution and all of its Fiscal Year 2004 Required Annual Statutory Contribution from the proceeds of the 2003 Pension Bonds and not from the General Revenue Fund. The 2003 Pension Bond Act also provided that 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 22 below for a schedule of the remaining annual debt service payments on the 2003 Pension Bonds.

The $7.3 billion contribution from the proceeds of the 2003 Pension Bonds directly reduced the UAAL, and, therefore, reduced future contributions from the levels that would have been required if the bond proceeds had not been used as additional contributions. The reduction of future Required Annual Statutory Contributions by the debt service payments on the 2003 Pension Bonds had the effect of increasing the UAAL, however, because the State does not make the full contribution originally required by the Statutory Funding Plan as a result of this reduction. At the time of the issuance of the 2003 Pension Bonds, the State assumed that the investment returns made on the 2003 Pension Bond proceeds used to reduce the UAAL would be greater than the debt service on the 2003 Pension Bonds, creating a net decrease in the UAAL in each year. Since the total interest cost percentage of the 2003 Pension Bonds at date of issuance was 5.05%, then in any year that the actual returns, as reported in Table 21, exceeded in each specific year the amount of the debt service payments reflected in the table below, the UAAL was effectively reduced from what the UAAL would have been had those bonds not been issued and proceeds not provided to the State's pension systems. Conversely, in those fiscal years when the actual returns reported in Table 21 were less than total interest cost percentage on the 2003 Pension Bonds, the UAAL was effectively increased from what the UAAL would have been had those bonds not been issued and proceeds provided to the State's pension systems. No assurance can be given that future investment trends or legislation affecting the Statutory Funding Plan will not occur, causing further change in the UAAL.

**TABLE 22 - DEBT SERVICE ON 2003 PENSION BONDS**[1]

| FISCAL YEAR | DEBT SERVICE DUE ON 2003 PENSION BONDS | FISCAL YEAR | DEBT SERVICE DUE ON 2003 PENSION BONDS |
|---|---|---|---|
| 2012 | $ 590.1 | 2023 | $ 783.7 |
| 2013 | 586.4 | 2024 | 840.2 |
| 2014 | 582.5 | 2025 | 892.2 |
| 2015 | 578.6 | 2026 | 915.4 |
| 2016 | 574.5 | 2027 | 936.1 |
| 2017 | 595.2 | 2028 | 979.2 |
| 2018 | 614.7 | 2029 | 1,018.5 |
| 2019 | 633.2 | 2030 | 1,079.0 |
| 2020 | 674.6 | 2031 | 1,134.4 |
| 2021 | 713.4 | 2032 | 1,159.7 |
| 2022 | 749.8 | 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. These reduced contributions were also lower than the Actuarially Required Contributions for such fiscal years. Under the provisions of the Statutory Funding Plan as originally constituted in the Pension Funding Act, the State would have been required to contribute $2.12 billion in Fiscal Year 2006 and $2.51 billion in Fiscal Year 2007. P.A. 94-4 reduced these contributions to $0.94 billion and $1.37 billion, respectively, which represented reductions of 55.7% and 45.3%, respectively. The contribution reductions required by P.A. 94-4 had the dual effect of increasing the UAAL and delaying payment of the deferred portion of the contribution to a future fiscal year.

The State made the full Required Annual Statutory Contributions for fiscal years 2008 and 2009. 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 actual investment returns were below rate of return assumptions and the annual contributions were below the Actuarially Required Contributions. 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 reflected a State contribution for Fiscal Year 2010 of $3.61 billion. On January 7, 2010, the State issued $3.47 billion of general obligation pension funding bonds (the "**2010 Pension Bonds**") to fund a portion of the Fiscal Year 2010 Required Annual Statutory Contribution. 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. Pursuant to the authorization under P.A. 96-1497 (the "**2011 Pension Bond Act**"), the State issued $3.7 billion in general obligation pension funding bonds (the "**2011 Pension Bonds**") to fund a portion of the Required Annual Statutory Contribution for Fiscal Year 2011. The 2011 Pension Bond Act does not provide that the Required Annual Statutory Contribution be reduced by the debt service payments on the 2011 Pension Bonds. In Fiscal Years 2010 and 2011, the UAAL increased even though the State made the Required Annual Statutory Contributions, because such contributions were lower than the Actuarially Required Contributions.

The State made all required Fiscal Year 2012 and 2013 payments to the Retirement Systems but certain of the required monthly payments were not made on a timely basis. The State has not made all of its monthly payments to the Retirement Systems on a timely basis during Fiscal Year 2014. In the past, the Retirement Systems have sold assets to pay benefits as a result of a deficit between the contributions actually received (plus investment returns earned) by the Retirement Systems and their annual expenditures, including benefit payments. Failures by the State to make its payments to the Retirement Systems on a timely basis can exacerbate the pace at which the Retirement Systems may be required to sell assets to meet benefit payment requirements. If 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, resulting in higher future Required Annual Statutory Contributions.

Pursuant to the Statutory Funding Plan, commencing with Fiscal Year 2011, the State is required to make contributions to the Retirement Systems at the constant 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. If the State for any reason does not contribute the Required Annual Statutory Contribution in any fiscal year, 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 and the investment risk to bondholders will increase. If the State issues additional pension obligation bonds to make the Required Annual Statutory Contribution in any year and reduces future Required Annual Statutory Contributions by the amount of the debt service on such bonds, the UAAL will increase by the amount of such debt service. No assurance can be given that the State will not, through legislative action, subsequently modify the amount required to be contributed in any given year.

Table 23 shows the State's Actuarially Required Contributions along with the percentage of those contributions actually made in each of 2003 through 2012.

**TABLE 23 - HISTORY OF STATE CONTRIBUTIONS[1]**

| Fiscal Year | Amount Contributed[2] | Actuarially Required Contribution Per GASB 25 | Percentage Contributed |
|---|---|---|---|
| 2003 | 1,685.50 | 2,535.59 | 66.47% |
| 2004[3] | 9,176.96 | 2,656.36 | 345.47% |
| 2005 | 1,735.11 | 3,084.49 | 56.25% |
| 2006 | 1,022.70 | 3,085.60 | 33.14% |
| 2007 | 1,479.40 | 3,665.60 | 40.36% |
| 2008 | 2,145.00 | 3,729.20 | 57.52% |
| 2009 | 2,891.90 | 4,076.40 | 70.94% |
| 2010 | 4,130.90 | 4,786.80 | 86.30% |
| 2011 | 4,298.57 | 5,906.59 | 72.78% |
| 2012 | 5,012.82 | 6,609.55 | 75.84% |

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2012. Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2003 through June 30, 2011.

(1) In millions of dollars.

(2) Includes all State funds.

(3) Proceeds from the Pension Obligation Bonds of 2003 were received at the very beginning of Fiscal Year 2004. The amount contributed for Fiscal Year 2004 was $1.86 billion and the remaining contribution from proceeds was $7.3 billion to fund a portion of the UAAL.

## Funded Status

As of the end of Fiscal Year 2012, the Retirement Systems had an aggregate UAAL of approximately $96.8 billion on a fair value basis and $94.6 billion on an actuarial basis (using the Asset Smoothing Method), resulting in respective Funded Ratios of 39.0% and 40.4%. The Retirement Systems' aggregate UAAL increased between the end of Fiscal Year 2011 and the end of Fiscal Year 2012 primarily as a result of certain changes to actuarial assumptions by TRS as part of their Fiscal Year 2012 actuarial experience review. Other factors contributing to the increased UAAL from Fiscal Year 2011 to Fiscal Year 2012 include State contributions less than the Actuarially Required Contribution, and lower investment returns than the Investment Rate of Return actuarially assumed by the Retirement Systems.

The following tables summarize the financial condition for Fiscal Years 2008 through 2012.

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## TABLE 24

## FINANCIAL CONDITION OF THE STATE RETIREMENT SYSTEMS
## FISCAL YEAR 2012

### ($ IN THOUSANDS)

| | SERS | TRS | SURS | GARS | JRS | Total | Self Managed Plan of SURS (1) |
|---|---|---|---|---|---|---|---|
| Beginning Net Assets(2) | $10,970,753 | $37,471,267 | $14,274,003 | $60,395 | $605,960 | $63,382,378 | $960,538 |
| Income | | | | | | | |
| Member Contributions | $259,123 | $917,661 | $258,236 | $1,623 | $16,445 | $1,453,087 | $54,122 |
| State and Employer Contributions | 1,391,416 | 2,561,259 | 985,815 | 10,502 | 63,644 | 5,012,636 | 45,924 |
| Investment Income | 5,975 | 224,107 | 9,067 | (81) | (69) | 238,999 | 16,659 |
| Total | $1,656,515 | $3,703,027 | $1,253,118 | $12,043 | $80,020 | $6,704,723 | $116,705 |
| Expenditures | | | | | | | |
| Benefits and Refunds | $1,650,874 | $4,638,457 | $1,808,811 | $19,396 | $107,240 | $8,224,778 | $34,035 |
| Administration | 15,706 | 19,012 | 13,167 | 298 | 764 | 48,947 | 389 |
| Total | $1,666,579 | $4,657,469 | $1,821,978 | $19,694 | $108,004 | $8,273,724 | $34,424 |
| Ending Net Assets (Fair value) | $10,960,688 | $36,516,825 | $13,705,143 | $52,744 | $577,976 | $61,813,377 | $1,042,819 |
| Actuarial Value of Assets | 11,477,264 | 37,945,397 | 13,949,905 | 56,090 | 601,220 | 64,029,876 | N/A |
| Actuarial Accrued Liabilities | 33,091,186 | 90,024,945 | 33,170,216 | 303,469 | 2,021,716 | 158,611,532 | N/A |
| UAAL (Fair Value) | 22,130,498 | 53,508,120 | 19,465,073 | 250,725 | 1,443,739 | 96,798,156 | N/A |
| UAAL (Actuarial Value)(3) | 21,613,922 | 52,079,548 | 19,220,311 | 247,379 | 1,420,496 | 94,581,656 | N/A |
| Funded Ratio (Fair Value) | 33.1% | 40.6% | 41.3% | 17.4% | 28.6% | 39.0% | N/A |
| Funded Ratio (Actuarial Value)(3) | 34.7% | 42.1% | 42.1% | 18.5% | 29.7% | 40.4% | N/A |

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2012, and the Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2011. Table may not add due to rounding. Certain information was provided by the Retirement Systems.

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

(2) Reflects valuation of assets on a fair value basis as of June 30, 2011, 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".

**TABLE 25**
**FINANCIAL CONDITION OF THE STATE RETIREMENT SYSTEMS**
**FISCAL YEAR 2011**
**($ IN THOUSANDS)**

| | SERS | TRS | SURS | GARS | JRS | Total | Self Managed Plan of SURS (1) |
|---|---|---|---|---|---|---|---|
| Beginning Net Assets(2) | $9,201,831 | $31,323,784 | $12,121,542 | $54,691 | $523,276 | $53,225,125 | $719,980 |
| Income | | | | | | | |
| Member Contributions | $254,201 | $909,577 | $260,177 | $2,006 | $16,725 | $1,442,687 | $49,757 |
| State and Employer Contributions | 1,127,887 | 2,326,029 | 773,595 | 11,444 | 62,694 | 4,301,648 | 44,841 |
| Investment Income | 1,930,208 | 7,234,539 | 2,801,109 | 10,291 | 105,258 | 12,081,406 | 172,506 |
| Total | $3,312,297 | $10,470,145 | $3,834,881 | $23,741 | $184,678 | $17,825,742 | $267,104 |
| Expenditures | | | | | | | |
| Benefits and Refunds | $1,529,640 | $4,304,870 | $1,670,146 | $17,738 | $101,372 | $7,623,765 | $26,202 |
| Administration | 13,735 | 17,792 | 12,274 | 299 | 622 | 44,722 | 344 |
| Total | $1,543,375 | $4,322,662 | $1,682,420 | $18,037 | $101,994 | $7,668,487 | $26,546 |
| Ending Net Assets (Fair value) | $10,970,753 | $37,471,267 | $14,274,003 | $60,395 | $605,960 | $63,382,378 | $960,538 |
| Actuarial Value of Assets | 11,159,837 | 37,769,753 | 13,945,680 | 63,161 | 614,596 | 63,553,027 | N/A |
| Actuarial Accrued Liabilities | 31,395,008 | 81,299,745 | 31,514,336 | 298,408 | 1,952,539 | 146,460,037 | N/A |
| UAAL (Fair Value) | 20,424,255 | 43,828,478 | 17,240,333 | 238,013 | 1,346,579 | 83,077,658 | N/A |
| UAAL (Actuarial Value)(3) | 20,235,171 | 43,529,992 | 17,568,656 | 235,247 | 1,337,943 | 82,907,009 | N/A |
| Funded Ratio (Fair Value) | 34.9% | 46.1% | 45.3% | 20.2% | 31.0% | 43.3% | N/A |
| Funded Ratio (Actuarial Value)(3) | 35.5% | 46.5% | 44.3% | 21.2% | 31.5% | 43.4% | N/A |

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2011, and the Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2010. Table may not add due to rounding. Certain information was provided by the Retirement Systems.

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

(2) Reflects valuation of assets on a fair value basis as of June 30, 2010, 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".

## TABLE 26
## STATE RETIREMENT SYSTEMS
## FISCAL YEAR 2010
## ($ IN THOUSANDS)

| | 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 | 799,896 | 3,679,643 | 1,653,853 | 4,771 | 42,532 | 6,180,695 | 71,482 |
| Total | $2,141,615 | $6,831,194 | $2,625,448 | $16,862 | $137,044 | $11,752,163 | $163,170 |
| Expenditures | | | | | | | |
| Benefits and Refunds | $1,405,915 | $3,988,188 | $1,524,771 | $16,991 | $92,080 | $7,027,945 | $16,437 |
| Administration | 11,721 | 16,951 | 12,108 | 272 | 564 | 41,616 | 347 |
| 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 | 85,569,179 | N/A |
| UAAL (Actuarial Value)(3) | 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)(3) | 37.4% | 48.4% | 46.4% | 26.3% | 34.1% | 45.4% | N/A |

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

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

(2) Reflects valuation of assets on a fair value basis as of June 30, 2009, 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".

**TABLE 27**
**STATE RETIREMENT SYSTEMS**
**FISCAL YEAR 2009**
**($ IN THOUSANDS)**

| | SERS | TRS | SURS | GARS | JRS | Total | Self Managed Plan of SURS (1) |
|---|---|---|---|---|---|---|---|
| Beginning Net Assets (2) | $10,995,367 | $38,430,723 | $14,586,326 | $75,406 | $612,681 | $64,700,502 | $616,385 |
| Income | | | | | | | |
| Member Contributions | $242,227 | $876,182 | $273,292 | $1,698 | $15,763 | $1,409,163 | $48,825 |
| State and Employer Contributions | 774,910 | 1,603,921 | 451,617 | 8,856 | 59,983 | 2,899,287 | 38,264 |
| Investment Income | (2,208,898) | (8,688,286) | (2,850,697) | (14,662) | (122,717) | (13,885,259) | (116,423) |
| Total | ($1,191,760) | ($6,208,183) | ($2,125,788) | ($4,108) | ($46,970) | ($9,576,809) | ($29,333) |
| Expenditures | | | | | | | |
| Benefits and Refunds | $1,315,073 | $3,707,423 | $1,414,642 | $15,929 | $86,269 | $6,539,336 | $13,457 |
| Administration | 10,681 | 17,388 | 12,922 | 277 | 566 | 41,834 | |
| Total | $1,325,755 | $3,724,811 | $1,427,564 | $16,206 | $86,834 | $6,581,170 | $13,457 |
| Ending Net Assets (Fair value) | $8,477,852 | $28,497,729 | $11,032,973 | $55,092 | $478,876 | $48,542,523 | N/A |
| Actuarial Value of Assets | 10,999,954 | 38,026,044 | 14,281,998 | 71,574 | 616,849 | 63,996,418 | N/A |
| Actuarial Accrued Liabilities | 25,298,346 | 73,027,198 | 26,316,231 | 245,226 | 1,548,510 | 126,435,511 | N/A |
| UAAL (Fair Value) | 16,820,494 | 44,529,469 | 15,283,258 | 190,134 | 1,069,633 | 77,892,988 | N/A |
| UAAL (Actuarial Value) (3) | 14,298,393 | 35,001,155 | 12,034,233 | 173,652 | 931,661 | 62,439,093 | N/A |
| Funded Ratio (Fair Value) | 33.5% | 39.0% | 41.9% | 22.5% | 30.9% | 38.4% | N/A |
| Funded Ratio (Actuarial Value) (3) | 43.5% | 52.1% | 54.3% | 29.2% | 39.8% | 50.6% | N/A |

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

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

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

## TABLE 28
## STATE RETIREMENT SYSTEMS
## FISCAL YEAR 2008
## ($ IN THOUSANDS)

| | SERS | TRS | SURS | GARS | JRS | Total | Self Managed Plan of SURS [1] |
|---|---|---|---|---|---|---|---|
| Beginning Net Assets [2] | $12,078,909 | $41,909,318 | $15,985,730 | $87,182 | $670,091 | $70,731,230 | $584,020 |
| Income | | | | | | | |
| Member Contributions | $249,955 | $865,400 | $264,149 | $1,773 | $15,443 | $1,396,721 | $45,952 |
| State and Employer Contributions | 587,732 | 1,171,788 | 344,945 | 6,810 | 46,978 | 2,158,253 | 38,954 |
| Investment Income | (680,760) | (2,014,902) | (675,722) | (4,708) | (37,977) | (3,414,069) | (39,127) |
| Total | $156,928 | $22,286 | -$66,627 | $3,874 | $24,445 | $140,905 | $45,779 |
| Expenditures | | | | | | | |
| Benefits and Refunds | $1,230,933 | $3,484,268 | $1,320,698 | $15,406 | $81,355 | $6,132,660 | $13,414 |
| Administration | 9,537 | 16,613 | 12,079 | 244 | 500 | 38,974 | |
| Total | $1,240,470 | $3,500,881 | $1,332,777 | $15,651 | $81,855 | $6,171,634 | $13,414 |
| Ending Net Assets | $10,995,367 | $38,430,723 | $14,586,326 | $75,406 | $612,681 | $64,700,502 | $616,385 |
| Actuarial Accrued Liabilities | 23,841,280 | 68,632,367 | 24,917,678 | 235,780 | 1,457,336 | 119,084,441 | N/A |
| UAAL | 12,845,914 | 30,201,644 | 10,331,353 | 160,374 | 844,656 | 54,383,940 | N/A |
| Funded Ratio | 46.1% | 56.0% | 58.5% | 32.0% | 42.0% | 54.3% | N/A |

Source: Actuarial Valuations of the Retirement Systems and Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2008. 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.

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

Tables 29 and 30 present information as required by GASB 27 for Fiscal Years 2003 through 2012. Table 29 provides aggregate funding progress for the Retirement Systems, including comparisons to UAAL and Funded Ratio. Table 30 provides a schedule of the Net Pension Obligation for each Retirement System and for the Retirement Systems in the aggregate. For additional information about the Net Pension Obligation, see "—Actuarial Methods—*Net Pension Obligation*" above.

**TABLE 29 - SCHEDULE OF FUNDING PROGRESS[(1)]**
**FAIR VALUE OF ASSETS AND ACTUARIAL VALUE OF ASSETS**

| Fiscal Year | Fair Value of Assets[(2)] | Actuarial Accrued Liability | UAAL | Funded Ratio | Payroll | UAAL as a % of Payroll |
|---|---|---|---|---|---|---|
| | (a) | (b) | (b-a) | (a/b) | (c) | ([b-a]/c) |
| 2003 | 40,925.69 | 83,905.02 | 42,979.32 | 48.8% | 13,601.60 | 316.0% |
| 2004 | 54,769.42 | 89,912.82 | 35,143.40 | 60.9% | 13,675.84 | 257.0% |
| 2005 | 58,577.90 | 97,179.00 | 38,601.10 | 60.3% | 14,106.80 | 273.6% |
| 2006 | 62,341.40 | 103,073.50 | 40,732.10 | 60.5% | 14,540.50 | 280.1% |
| 2007 | 70,731.20 | 112,908.60 | 42,177.40 | 62.6% | 15,249.20 | 276.6% |
| 2008 | 64,700.50 | 119,084.40 | 54,383.90 | 54.3% | 15,949.20 | 341.0% |
| 2009 | 48,542.52 | 126,435.51 | 77,892.99 | 38.4% | 16,606.60 | 469.0% |
| 2010 | 53,225.10 | 138,794.30 | 85,569.20 | 38.3% | 17,042.20 | 502.1% |
| 2011 | 63,382.38 | 146,460.04 | 83,077.66 | 43.3% | 17,061.93 | 486.9% |
| 2012 | 61,813.38 | 158,611.53 | 96,798.16 | 39.0% | 17,313.70 | 559.1% |

| Fiscal Year | Actuarial Value of Assets[(3)] | Actuarial Accrued Liability | UAAL | Funded Ratio | Payroll | UAAL as a % of Payroll |
|---|---|---|---|---|---|---|
| | (a) | (b) | (b-a) | (a/b) | (c) | ([b-a]/c) |
| 2009 | 63,996.42 | 126,435.51 | 62,439.09 | 50.6% | 16,606.60 | 376.0% |
| 2010 | 63,053.40 | 138,794.30 | 75,740.90 | 45.4% | 17,042.20 | 444.4% |
| 2011 | 63,553.03 | 146,460.04 | 82,907.01 | 43.4% | 17,061.93 | 485.9% |
| 2012 | 64,029.88 | 158,611.53 | 94,581.66 | 40.4% | 17,313.70 | 546.3% |

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2003 through June 30, 2011 and Actuarial Valuations of the Retirement Systems as of June 30, 2012.

(1) In millions of dollars. Table may not add due to rounding.

(2) Measures assets at fair value.

(3) Beginning in fiscal year 2009, the actuarial value of assets was determined in accordance with the Asset Smoothing Method. See discussion of Asset Smoothing Method under "ACTUARIAL METHODS - *Actuarial Value of Assets*".

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**TABLE 30 - NET PENSION OBLIGATION[1]**

| Fiscal Year | TRS | SURS | SERS | GARS | JRS | Total |
|---|---|---|---|---|---|---|
| 2003 | $9,658.9 | $4,812.9 | $1,142.4 | $55.8 | $331.5 | $16,001.5 |
| 2004 | 6,272.9 | 3,910.0 | (105.6) | 33.6 | 227.5 | $10,338.4 |
| 2005 | 7,183.9 | 4,361.9 | 190.9 | 38.4 | 261.0 | $12,036.1 |
| 2006 | 8,508.6 | 4,984.3 | 658.9 | 44.1 | 303.5 | $14,499.4 |
| 2007 | 9,971.1 | 5,584.5 | 1,135.5 | 50.0 | 349.7 | $17,090.8 |
| 2008 | 11,075.7 | 6,121.0 | 1,554.6 | 55.0 | 386.0 | $19,192.3 |
| 2009 | 11,954.0 | 6,734.2 | 1,814.5 | 58.6 | 413.4 | $20,974.7 |
| 2010 | 12,586.1 | 7,250.8 | 1,933.3 | 61.6 | 431.5 | $22,263.3 |
| 2011 | 13,418.7 | 7,941.1 | 2,131.5 | 64.7 | 470.1 | $24,026.1 |
| 2012 | 14,641.8 | 8,561.8 | 2,388.0 | 68.4 | 523.7 | $26,183.7 |

Source: Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2003 through June 30, 2011 and Actuarial Valuations of the Retirement Systems as of June 30, 2012. Certain information related to Fiscal Year 2012 was provided by the Retirement Systems.

(1) In millions of dollars. Table may not add due to rounding.

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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 employer contributions below the Actuarially Required Contribution 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 the Actuarially Required Contribution 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 31 below. The UAAL increased from $35.0 billion at the end of Fiscal Year 2002 to $94.6 billion at the end of Fiscal Year 2012, a change in $59.6 billion. No assurances can be given that the State will make the appropriations necessary to meet any deficiencies incurred by the Retirement Systems.

**TABLE 31 - COMPONENTS OF CHANGE IN UNFUNDED LIABILITY (1)**

| Fiscal Year | Salary Increases/ (Decreases) | Investment Returns (Higher)/Lower Than Assumed(2) | Employer Contributions (Higher)/Lower than Normal Cost Plus Interest(3)(5) | Benefit Increases | Changes In Actuarial Assumptions | Other Factors(4) | Total Change in Unfunded Liability From Previous Year |
|---|---|---|---|---|---|---|---|
| 2003 | 125.6 | 2,071.5 | 2,435.1 | 2,425.0 | 0.0 | 1,101.0 | 8,158.3 |
| 2004 | 135.7 | (3,841.8) | (4,689.8) | 0.0 | 0.0 | 385.3 | (8,010.6) |
| 2005 | 35.1 | (1,033.6) | 2,431.5 | 0.0 | 26.4 | 2,048.3 | 3,507.8 |
| 2006 | 108.3 | (1,843.1) | 3,484.5 | 0.0 | 704.6 | (323.2) | 2,131.2 |
| 2007 | 314.9 | (6,064.1) | 3,321.0 | 0.0 | 2,735.2 | 1,138.3 | 1,445.2 |
| 2008 | 72.8 | 9,312.3 | 2,785.9 | 0.0 | 0.0 | 35.5 | 12,206.5 |
| 2009 | (105.8) | 3,831.9 | 3,231.3 | 0.0 | 0.0 | 1,097.7 | 8,055.2 |
| 2010 | (421.9) | 4,818.1 | 2,746.1 | 0.0 | 5,209.1 | 950.5 | 13,301.8 |
| 2011 | (847.3) | 2,667.2 | 3,666.0 | 0.0 | 581.3 | 1,098.7 | 7,166.0 |
| 2012 | (1,294.5) | 2,844.8 | 4,308.0 | 0.0 | 4,625.0 | 1,191.5 | 11,674.8 |
| Total | (1,877.0) | 12,763.1 | 23,719.8 | 2,425.0 | 13,881.6 | 8,723.7 | 59,636.3 |

Source: Commission on Government Forecasting and Accountability, Report on the Financial Condition of the Illinois Retirement Systems: Financial Condition as of June 30, 2011. See "RECENT REPORTS REGARDING THE RETIREMENT SYSTEMS - Report of the Commission on Government Forecasting and Accountability." Certain information for Fiscal Year 2012 was provided by the Retirement Systems.

(1) In millions. Table may not add due to rounding.

(2) Investment returns beginning Fiscal Year 2009 based on Asset Smoothing Method.

(3) To determine whether employer contributions represented an increase or decrease in UAAL, such contributions are measured against contributions based on the Normal Cost plus interest. If employer contributions exceed Normal Cost plus interest, the UAAL will decrease. If employer contributions are less than Normal Cost plus interest, the UAAL will increase.

(4) Other factors include, but are not limited to, higher or lower incidences of retirement, disability, in-servie mortality, retiree mortality or terminations than assumed.

(5) Includes 2003 Pension Bonds. See "HISTORY OF CONTRIBUTIONS TO THE RETIREMENT SYSTEMS" above.

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**2010 Legislation Modifying Pension Structure**

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

On March 24, 2010, the General Assembly enacted Public Act 96-0889 ("**P.A. 96-889**"). P.A. 96-889 provided for significant reforms to the Retirement Systems, most notably by establishing a "two-tier" pension system resulting in reduced benefits for employees who become members of the Retirement Systems after January 1, 2011, as compared to those provided to State employees who commenced employment prior to January 1, 2011. Among other reforms, P.A. 96-889:

Increased 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;

Reduced the cost of living adjustment to the lower of 3% or 50% of the annual change in the consumer price index for all urban consumers ("**CPI**") (for JRS and GARS, the annual change in such CPI) and eliminated compounding for employees hired after January 1, 2011;

Calculated 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;

Limited the salary on which a pension may be calculated to $106,800 (subject to certain adjustments for inflation); and

Suspended retirement annuities if the annuitant accepts another public sector job covered by a public retirement system.

P.A. 96-889 did 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 are expected to reduce the growth in the Actuarial Accrued Liability, the UAAL and the Required Annual Statutory Contribution. In calculating the Actuarial Accrued Liability, the actuaries make assumptions about future benefit levels. As 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, under the current Statutory Funding Plan the reduction in future benefits caused an immediate reduction in the amount that the State was required to contribute to the Retirement Systems in Fiscal Year 2011. See Table 32 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, increasing the UAAL and decreasing the Funded Ratio.

Table 32 was prepared solely to compare projected Required Annual Statutory Contributions to the Retirement Systems prior to and after the enactment of P.A. 96-889. These projections were made as of June 30, 2010, immediately following the passage of P.A. 96-889, and do not reflect current projections of the Required Annual Statutory Contributions to the Retirement Systems. Table 32A reflects projections of the Required Annual Statutory Contributions to the Retirement Systems based on the Actuarial Valuations of the Retirement Systems as of June 30, 2012, including the revised actuarial assumptions presented in Tables 20 and 21. Actual Required Annual Statutory Contributions to the Retirement Systems will vary from the projected amounts shown in both Table 32 and Table 32A. 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 32 – PROJECTIONS, AS OF THE PASSAGE OF P.A 96-889, OF 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: Projected Required Annual Statutory Contributions Before P.A. 96-889 from compilation by Deloitte Consulting LLP, Chicago, Illinois made as of April 13, 2010 from information supplied by the Retirement Systems. Projected Required Annual Statutory Contributions 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.

(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.

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## TABLE 32A - PROJECTED REQUIRED ANNUAL STATUTORY CONTRIBUTIONS TO THE RETIREMENT SYSTEMS (1)

| Fiscal Year | Projected Required Annual Statutory Contributions |
|---|---|
| 2013 | $5,825 |
| 2014 | $6,793 |
| 2015 | $7,075 |
| 2016 | $7,280 |
| 2017 | $7,540 |
| 2018 | $7,827 |
| 2020 | $8,362 |
| 2025 | $9,836 |
| 2030 | $11,531 |
| 2035 | $14,502 |
| 2040 | $16,096 |
| 2045 | $17,677 |

Source: Annual Actuarial Valuations of the Retirement Systems as of June 30, 2012. Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal year ended June 30, 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.

### Projection of Funded Status

Table 33 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.

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### TABLE 33 - PROJECTION OF FUTURE FUNDING STATUS (1)

| Fiscal Year | Actuarial Value of Assets[2] (a) | Actuarial Accrued Liability (b) | Unfunded Accrued Actuarial Liabilities (UAAL) (b-a) | Funded Ratio (a/b) |
|---|---|---|---|---|
| 2012 | 64,029.87 | 158,611.52 | 94,581.64 | 40.4% |
| 2013 | 64,461.93 | 165,290.10 | 100,828.18 | 39.0% |
| 2014 | 69,505.89 | 172,213.96 | 102,708.08 | 40.4% |
| 2015 | 74,265.56 | 179,207.44 | 104,941.87 | 41.4% |
| 2016 | 77,497.75 | 186,250.19 | 108,752.44 | 41.6% |
| 2017 | 81,799.70 | 193,325.78 | 111,526.08 | 42.3% |
| 2020 | 95,347.88 | 214,643.75 | 119,295.87 | 44.4% |
| 2025 | 120,268.95 | 249,830.72 | 129,561.77 | 48.1% |
| 2030 | 150,066.83 | 283,451.58 | 133,384.75 | 52.9% |
| 2035 | 188,757.11 | 312,730.31 | 123,973.20 | 60.4% |
| 2040 | 241,925.95 | 334,377.28 | 92,451.33 | 72.4% |
| 2045 | 312,731.27 | 347,477.76 | 34,746.49 | 90.0% |

Source: Compiled from the annual Actuarial Valuations of the Retirement Systems as of June 30, 2012.

(1) In millions of dollars.

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

## Recent Reports and Other Developments 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 the web site of the Pension Reform Task Force. See "STATE OF ILLINOIS—Website Index." 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.

*Report of the Commission on Government Forecasting and Accountability*

The Commission on Government Forecasting and Accountability ("**COGFA**") prepared a report dated March, 2012, on the financial condition of the Retirement Systems as of June 30, 2011 (the "**COGFA Report**"). COGFA is a bipartisan and bi-cameral legislative commission whose purpose is to provide the General Assembly with information relevant to the State economy, taxes, and other sources of revenue and debt obligations of the State. Among COGFA's list of specific responsibilities is to make an annual estimate of public pension funding requirements and to prepare pension impact notes. Furthermore, COGFA has a mandate to report to the General Assembly on economic trends in relation to long-range planning and budgeting and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as the same may affect the State. As a result of these responsibilities, COGFA issues several reports on an annual basis, including the COGFA Report, which provides an overview of the financial condition of the Retirement Systems.

The COGFA Report provides significant information on the funded status of the Retirement Systems, historical and projected information with respect to each of the Retirement Systems and an exhaustive history of pension legislation. COGFA does not make findings in the COGFA Report. The COGFA Report is available from COGFA's website listed in "STATE OF ILLINOIS—Website Index." The State makes no representations nor expresses any opinion on the COGFA Report.

*Resolution of the TRS Board of Trustees*

In February 2012, the Executive Director of TRS informed its Board of Trustees that TRS can no longer be confident that the General Assembly will appropriate all of the money to TRS that is required by law. On March 30, 2012, the Board of Trustees of TRS adopted a resolution which stated that, after consideration of information provided by the Executive Director describing the analysis performed by TRS staff and actuaries, the Board no longer has confidence that the State will be able to meet its existing funding obligations to TRS and the Board believes that action must now be taken to ensure the continued solvency and viability of the TRS. The resolution also provided that the Board will only certify future contributions to TRS that are calculated based on generally accepted actuarial principles and standards. On April 30, 2012, the resolution was amended to add a statement that any changes to the Pension Code must adhere to the "Pension Protection Clause" (Article 13, Section 5) of the Illinois Constitution. The resolution of the Board of Trustees, as amended, and information prepared by the Executive Director are available at the TRS website listed in "STATE OF ILLINOIS—Website Index."

**Current Status of Pension Reform Legislation**

During the Spring 2013 legislative session of the 98th General Assembly, various pension reform bills were proposed by members of the General Assembly. Proposed reforms contained in introduced bills included adopting a funding formula based on the Actuarially Required Contribution in lieu of the Statutory Funding Plan, reducing and/or delaying cost of living adjustments, increasing employee contribution rates, increasing the retirement age and imposing caps on the amount of income upon which a pension may be calculated.

On March 20, 2013, the Illinois Senate passed SB 1. On May 2, 2013, the Illinois House of Representatives passed an amended version of SB 1. On May 31, 2013, the amended version of SB 1 that was approved by the House failed to pass the Senate. The House also passed three other pension reform bills, HB 1154, HB 1165 and HB 1166, during the Spring 2013 legislative session. However, the Senate did not vote on any of these three bills prior to the adjournment of the session on May 31, 2013. Additionally, on May 9, 2013, the Senate passed SB 2404. However, SB 2404 was not called for a vote in the House prior to the adjournment of the session on May 31, 2013. As a result, as of the date of this Remarketing Circular, the General Assembly, as a body, has not passed in 2013 any pension reform legislation for the State pension systems. Full texts of the bills referenced above may be found on the General Assembly's website. See "STATE OF ILLINOIS—Website Index." In July 2013, the General Assembly formed a conference committee composed of five members of the Senate and five members of the House to consider and propose pension reform legislation for consideration by the General Assembly. In accordance with Article IV, Section 10 of the Illinois Constitution, any bill passed after May 31 of a calendar year may not become effective until June 1 of the following calendar year, unless the General Assembly, by a vote of three-fifths of the members of each chamber, provides for an earlier effective date.

In addition to the bills referenced above, the General Assembly could consider other pension reform legislation. However, there can be no assurance as to whether, when, or in what form, the General Assembly might consider and pass any such legislation. Likewise, there can be no assurance that any pension reform legislation passed by the General Assembly will be signed into law by the Governor. Finally, to the extent that pension reform legislation is enacted, the State believes there is a strong likelihood that litigation will be filed challenging the constitutionality of such legislation, and there can be no assurance that such legislation will be upheld as constitutional by the Courts.

In the absence of enacted and implemented pension reform legislation, the Statutory Funding Plan and calculation of benefits will remain unchanged. Moreover, although various of the assumptions underlying the determination of the Required Annual Statutory Contribution are likely to fluctuate over time, the current status of and projections relative to the Actuarial Accrued Liability, the Funded Ratio and the UAAL contained in this Remarketing Circular (taken independently of adjustments due to changes in actuarial assumptions) would remain unaltered. See "Pension Systems—Determination of Employer Contributions," "Pension Systems—Actuarial Methods," "Pension Systems—History of Contributions to the Retirement Systems," "Pension Systems—Funded Status," "Pension Systems—Projection of Funded Status" and "APPENDIX B—Summary of Certain Information Regarding the Illinois Pension Systems."

**SEC Order**

The State was originally 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 Illinois public pensions, including communications relating to the potential savings or reductions in contributions by the State to the Illinois public pensions. The SEC inquiry ultimately turned to disclosures relating to the Statutory Funding Plan.

On March 11, 2013, the SEC instituted administrative proceedings and imposed a cease-and-desist order (the "**Order**"). The Order can be found on the State's Capital Markets website and the Electronic Municipal Market Access website. See "STATE OF ILLINOIS—Website Index." In its Order, the SEC found that, between 2005 and March 2009, the State acted negligently and (i) misled bond investors by omitting to disclose information about the adequacy of the Statutory Funding Plan and the risks created by the State's structural underfunding of its pension obligations, (ii) misled bond investors about the effect of changes to the Statutory Funding Plan, including the State's failure to make the full pension contributions in 2006 and 2007 and (iii) omitted to disclose material information, which rendered certain statements misleading to bond investors regarding the State's ability to fund its pension obligations or the impact of the State's pension obligations on the State's financial condition. In agreeing to the Order, the State did not admit or deny the SEC's findings in the Order. Under the terms of the Order, the State was not required to pay any civil fines or penalties, and the SEC noted that it considered the State's cooperation during the inquiry as well as the remedial measures, described in the Order, instituted by the State to ensure compliance with its disclosure obligations under the federal securities laws.

Prior to the SEC inquiry and in response to statements made by the SEC in an enforcement action against the State of New Jersey (SEC Rel. No. 9135, August 18, 2010), the State engaged the law firm of Chapman and Cutler LLP to assist the State in reviewing the enforcement action against New Jersey, updating certain of the information contained in this section and drafting the disclosure policies and procedures set forth in the following subsection. The State subsequently engaged the law firm of Mayer Brown LLP to assist the State in continuing to update certain information contained in this section and in implementing the disclosure policies and procedures set forth in the following subsection.

**Pension Disclosure Policies and Procedures**

The State has reviewed, evaluated, and enhanced its pension disclosure process by instituting formal, written policies and procedures. 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 and the Office of the Attorney General for their review and comment.

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

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## OTHER POST EMPLOYMENT BENEFITS

### Plan Description

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

### Funding Policy and Annual OPEB Cost

Prior to Fiscal Year 2013, the State contributed toward the cost of an annuitant's coverage under the basic program of group health, dental, and vision benefits an amount equal to five percent of that cost for each full year of creditable service up to a maximum of one hundred percent for an annuitant with twenty or more years of creditable service. The amount the State contributed was determined from negotiations with the collective bargaining units within the various retirement systems. With the recent amendment of the Illinois Administrative Procedures Act, the director of CMS is empowered to set the level of State contribution on an annual basis. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees. However, the appropriated amount has been insufficient in recent years resulting in a backlog of reimbursements to health care providers and retirees, as further discussed in "OTHER GENERAL FUND LIABILITIES". GASB Statement No. 45 requires the calculation of the OPEB Actual Accrued Liability ("**AAL**") which is the difference between (i) the actuarial present value of future plan benefits; and (ii) the actuarial present value of future pay-as-you-go cost. The AAL at the end of Fiscal Year 2011 was $33,295 million. The OPEB Actuarially Required Contribution ("**ARC**") is an amount that is actuarially determined in accordance with the requirements so that, if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both the pay-as-you-go cost for each year and the amortized unfunded AAL over the amortization period of thirty years. The State's lack of funding requirement differs significantly from the Annual OPEB Cost as pay-as-you-go does not conform to the GASB Statement No. 45 accounting principles. The State's Annual OPEB Cost for the current year and related information is included in Tables 34, 34A and 34B.

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## TABLE 34
## NET OTHER POST EMPLOYMENT BENEFITS OBLIGATION FISCAL YEAR 2012[1]
**($ IN THOUSANDS)**

| | |
|---|---|
| **Actuarially Required Contribution (Net of ARC adjustments)** | $ 2,206,190 |
| **Plus: Interest on Net OPEB Obligations** | 257,236 |
| **Annual OPEB Cost** | 2,463,426 |
| **Benefits paid during the year** | 777,372 |
| **Increase in Net OPEB Obligations** | 1,686,054 |
| **Net OPEB Obligations at June 30, 2011** | 5,614,025 |
| **Net OPEB Obligations at June 30, 2012** | $ 7,300,079 |

[1]Based on information in the State CAFR.

## TABLE 34A
## OTHER POST EMPLOYMENT BENEFITS - FISCAL YEARS 2008-2012[1]
**($ IN MILLIONS)**

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Annual Required Contribution[2]** | $1,776 | $1,840 | $1,937 | $2,339 | 2463.4 |
| **Benefits paid during the year** | 538 | 604 | 532 | 501 | 777 |
| **Increase in Net OPEB Obligations** | 1,238 | 1,236 | 1,405 | 1,838 | 1,686 |
| **Net OPEB Obligations Balance** | 1,238 | 2,474 | 3,879 | 5,716 | 7,300 |

[1]Illinois State Employment Group Insurance Program GASB No. 45 Actuarial Valuation Report and the State CAFR.
[2] The Annual Required Contribution numbers include interest on Net OPEB Obligations and adjustments to the Annual Required Contributions.

## TABLE 34B
## OTHER POST EMPLOYMENT BENEFITS UNFUNDED ACTUARIAL ACCRUED LIABILITY- FISCAL YEARS 2008-2011[1]
**($ IN MILLIONS)**

| | 2008* | 2009 | 2010* | 2011 |
|---|---|---|---|---|
| **Unfunded Actuarial Accrued Liability** | $23,890 | $27,124 | $28,596 | $33,295 |

[1]Illinois State Employment Group Insurance Program GASB No. 45 Actuarial Valuation Report and the State CAFR.

*Estimation in the succeeding year's report.

Note: the GASB No. 45 Actuarial Valuation Report is produced every other year; there will be a full valuation reporting on FY2013.

## 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 *Bambeneck v. Hynes*, No. 09-MR-136 (Champaign County), petitioner seeks leave to file a taxpayer action that would enjoin the disbursement of moneys 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, 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 January 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 January 2005, the IWCC has on a regular basis requested and the Circuit Court of Cook County has released moneys sufficient to fund the IWCC's on-going operations. As of November 2009, approximately \$22.8 million remained in escrow. In addition, the trial court has allowed certain insurance companies to make surcharge payments into the Protest Fund. As of November 2009, approximately \$58 million in such payments have been deposited into the Protest Fund. The case has been settled. The money in escrow and the protest funds were deposited in a court settlement fund for use by the Illinois Workers' Compensation Commission for capital improvements and to pay possible liabilities to the Rate Adjustment Fund, upon application for and receipt of permission by the Circuit Court of Cook County.

Several other 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 the settlement agreement in June 2009.

In May and June 2006, trade associations representing property and casualty insurance and real estate sales interests, respectively, 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 moneys from the funds at issue, pending further consideration of the matters.

In January 2008, in the property and casualty insurance case, the Sangamon County Circuit 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. The State's motion for summary judgment was granted on August 27, 2013. A Notice of Appeal was filed by plaintiffs on September 26, 2013. Finally, in the real estate sales' litigation, the State's motion to dismiss was argued before the Sangamon County Circuit Court on October 26, 2012. The motion to dismiss was granted on January 18, 2013. Plaintiffs subsequently filed a Notice of Appeal and a motion to stay enforcement of judgment pending appeal. The motion is pending.

In June 2006, a motorcyclist's organization filed an action in Sangamon County challenging certain fees and transfers of funds. 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 appellate court held on May 3, 2010, that the removal of funds was not an unconstitutional taking and that the legislature has the authority to order a transfer of funds. The Supreme Court granted Plaintiffs' Petition for Leave to Appeal on September 28, 2010. The case was argued on March 23, 2011. The Supreme Court affirmed the judgment of the appellate court on October 27, 2011. The Supreme Court issued the mandate in this case on December 2, 2011. A similar case filed in 2005 in Sangamon County by the same motorcyclist's organization was dismissed by agreement after the Supreme Court's ruling.

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.

In May 2011, a plaintiff class sued a defendant class of all County Recorders of Deeds in Illinois challenging the imposition of a surcharge for the recordation of any real estate-related document. The surcharges were submitted to the Department of Revenue, which deposited the money in the Rental Housing Support Program Fund. The State intervened to defend the statute. The circuit court granted plaintiffs' motions for summary judgment on the prior and current versions of the statute requiring the surcharges on April 3, 2013 and September 25, 2013, and Notices of Appeal to the Illinois Supreme Court were filed from those orders on May 3, 2013 and October 18, 2013. The parties intend to ask the Supreme Court to consolidate the cases for briefing and decision.

In October 2012, a plaintiff class sued a defendant class of Circuit Court Clerks challenging the imposition of a surcharge on the filing of a mortgage foreclosure complaint. Under the version of the statute at issue, the clerk collected the fee and submitted most of it to the State Treasurer for deposit into the Foreclosure Prevention Program Fund. The Fund was administered by the Illinois Housing Development Authority to make grants to counseling and community agencies. The State intervened to defend the statute. On November 8, 2013, the circuit court granted plaintiffs' motion for partial summary judgment finding the statute unconstitutional.

## RATINGS

Moody's Investors Service ("Moody's") has assigned: (i) a long term rating of Aa1 and a short term rating of VMIG 1 to the Series 2003B-1 Bonds, (ii) a long term rating of Aa3 and a short term rating of VMIG 1 to the Series 2003B-2 Bonds, (iii) a long term rating of Aa1 and a short term rating of VMIG 1 to the Series 2003B-3 Bonds, (iv) a long term rating of Aa1 and a short term rating of VMIG 1 to the Series 2003B-4 Bonds, (v) a long term rating of Aa1 and a short term rating of VMIG 1 to the Series 2003B-5 Bonds and (vi) a long term rating of Aa2 and a short term rating of VMIG 1 to the Series 2003B-6 Bonds. Standard & Poor's Rating Services ("S&P") has assigned: (a) a long term rating of AAA and a short term rating of A-1 to the Series 2003B-1 Bonds, (b) a long term rating of AAA and a short term rating of A-1 to the Series 2003B-2 Bonds, (c) a long term rating of AAA and a short term rating of A-1+ to the Series 2003B-3 Bonds, (d) a long term rating of AAA and a short term rating of A-1+ to the Series 2003B-4 Bonds, (e) a long term rating of AAA and a short term rating of A-1+ to the Series 2003B-5 Bonds and (f) a long term rating of AAA and a short term rating of A-1+ to the Series 2003B-6 Bonds. Such ratings are subject to change, suspension or withdrawal at any time for a number of reasons, including changes in, or the unavailability of, information for the rating agency, and any such change, suspension or withdrawal may affect the market price or marketability of each Subseries of Bonds. Such ratings reflect only the views of the rating agency and are not a recommendation to buy, sell or hold the Bonds. Each Subseries of Bonds and the ratings assigned to them should be evaluated independently.

The State will provide appropriate periodic credit information necessary for maintaining ratings on the Bonds to the rating agencies. Except as may be required by any Continuing Disclosure Undertaking the State undertakes no responsibility 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.

## TAX MATTERS

### Opinions of 2013 Bond Counsel

Mayer Brown LLP (the "**2013 Bond Counsel**") will issue its opinion that the Transaction will not, in and of itself, impair the exclusion of the interest on the Bonds from gross income of the owners thereof for purposes of Federal income taxation to the extent such exclusion was otherwise available to the interest of the Bonds. See APPENDIX C-2 for a copy of the form of opinion to be delivered by 2013 Bond Counsel.

### Opinions of Initial Bond Counsel

On October 29, 2003, Chapman and Cutler LLP and Burris, Wright, Slaughter & Tom LLC (the "**Initial Co-Bond Counsel**") issued approving opinions with respect to the Bonds. A copy of the form of such opinions issued by Initial Co-Bond Counsel is set forth as APPENDIX C-1.

*Each such approving opinion spoke only as of its date. Initial Co-Bond Counsel have not been engaged to advise on the correctness of such opinions as of any date other than the date thereof, or to revise or supplement such opinions to reflect any facts or circumstances that may have come to their attention since the date thereof or any changes in law that may have occurred since the date thereof. The inclusion of such opinions in this Remarketing Circular shall not constitute any reissuance or republication of such opinions.*

*The Official Statement contained the following description of tax matters relating to the Bonds. 2013 Bond Counsel has not reviewed the following description and expresses no opinion thereon. Initial Co-Bond Counsel have not reviewed and/or updated the following description since the date of the Official Statement, October 29, 2003.*

#### General

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

Subject to the State's compliance with the above-referenced covenants, under present law, in the opinion of Co-Bond Counsel, interest on the Bonds is not includible in the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations and in computing the "branch profits tax" imposed on certain foreign corporations. Co-Bond Counsel express no opinions concerning the inclusion in gross income of interest on any Series 2003B Bond while it is held by a Credit Provider after a failed remarketing of the Series 2003B Bonds, or after it has been held by a Credit Provider in such circumstances for thirty days or more.

In rendering their opinions, Co-Bond Counsel will rely upon certifications of the State with respect to certain material facts solely within the State's knowledge and upon mathematical computation of the yield on the Bonds and the yield on the Government Securities by the Verification Agent. Co-Bond Counsel's opinions represent their legal judgment based upon their review of the law and the facts that they deem relevant to render such opinions and are not guarantees of a result.

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

Under the provisions of Section 884 of the Code, a branch profits tax is levied on the "effectively connected earnings and profits" of certain foreign corporations, which include tax-exempt interest such as interest on the Bonds.

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

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity, or in the case of a Bond issued with original issue discount, its Revised Issue Price (as discussed below), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is

treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

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

Interest on the Bonds is not exempt from income taxes imposed by the State of Illinois.

**Bond Premium**

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

## 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 Bonds are not subject to the disclosure requirements of Section (b)(5) of Rule 15c2-12 (the "**Rule**") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. The State is in compliance with each and every undertaking previously entered into by it pursuant to the Rule. The State has filed its "Annual Financial Information" within the time periods prescribed in its various continuing disclosure undertakings. During the last five years, the State's "Audited Financial Statements" have not been available when the Annual Financial Information has been filed, but have been filed within 30 days after their availability to the Governor's Office of Management and Budget.

## CERTAIN LEGAL MATTERS

Legal matters incident to the remarketing of the Bonds are subject to the approving opinions of 2013 Bond Counsel, Mayer Brown LLP, Chicago, Illinois. The opinions of 2013 Bond Counsel will accompany the delivery of the Bonds and be in substantially the form included in this Remarketing Circular as Appendix C.

Certain legal matters will be passed upon for the State by Mayer Brown LLP and for the Credit Providers by their counsel, Winston & Strawn LLP.

## FINANCIAL ADVISOR

The State has engaged Acacia Financial Group, Inc., Chicago, Illinois as Financial Advisor with respect to the Bonds.

Acacia Financial Group, Inc., Chicago, Illinois, has served as Financial Advisor to the State with respect to this transaction. The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Remarketing Circular and the Appendices hereto. The Financial Advisor is an independent firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## ADDITIONAL INFORMATION

The information contained in this Remarketing Circular is subject to change without notice and no implication may or shall be derived there from or from the sale of the Bonds that there has been no change in the affairs of the State or the information contained in this Remarketing Circular since the dates as of which such information is given. Any statements in this Remarketing Circular involving matters of opinion or estimate, whether or not expressly so stated, are intended as such and not as representations of fact. This Remarketing Circular 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 will provide to the Remarketing Agent 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.

## MISCELLANEOUS

Additional information regarding the Bonds, the Credit Facilities and this Remarketing Circular is available by contacting the Governor's Office of Management and Budget, 100 W. Randolph St., Suite 15-100, Chicago, Illinois 60606; telephone: (312) 814-2121.

The State has authorized the distribution of this Remarketing Circular.

**STATE OF ILLINOIS**

By: /s/ Jerome Stermer
Acting 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 second among the ten most populous states and sixteenth 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 shows Illinois has a historically higher per capita GDP than the Great Lakes Region and the United States. Table A-2 compares the workforce composition of Illinois to that of the United States as a whole. Table A-3 shows the distribution of Illinois non-agricultural employment by industry sector.

**TABLE A-1**
**PER CAPITA REAL GDP (Chained 2005 dollars)**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| United States | $ 43,633 | $ 43,079 | $ 41,640 | $ 42,346 | $ 42,070 | $ 42,784 |
| Illinois | 46,593 | 45,970 | 44,565 | 45,258 | 45,231 | 46,151 |
| Great Lakes Region | 40,617 | 39,786 | 38,258 | 39,175 | 38,722 | 39,919 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis, June data as of October 2013

**TABLE A2**
**PAYROLL JOBS BY INDUSTRY, SEASONALLY ADJUSTED**
**(Thousands)**

| Industry Employment Sector | Illinois | % of Total | U.S. | % of Total |
|---|---|---|---|---|
| Financial Activities | 374 | 6.5% | 7,971 | 5.9% |
| Manufacturing | 576 | 9.9% | 12,013 | 8.9% |
| Trade, Transportation and Utilities | 1,168 | 20.2% | 25,960 | 19.1% |
| Leisure and Hospitality | 538 | 9.3% | 14,856 | 11.0% |
| Education and Health Services | 878 | 15.1% | 20,344 | 15.0% |
| Mining, Logging, Information and Other Services | 360 | 6.2% | 9,150 | 6.7% |
| Government | 823 | 14.2% | 20,531 | 15.1% |
| Professional and Business Services | 891 | 15.4% | 18,692 | 13.8% |
| Construction | 189 | 3.3% | 6,060 | 4.5% |
| **Total** | **5,796** | **100.0%** | **135,577** | **100.0%** |

Source: U.S. Department of Labor, Bureau of Labor Statistics, July data as of October 2013

**TABLE A-3**
**NON-AGRICULTURE PAYROLL JOBS BY INDUSTRY**
**ILLINOIS – 2008 THROUGH JULY 2013**
**(Thousands)**

| Industry Employment Sector | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Total Non-Agricultural Employment | 5,994 | 5,806 | 5,588 | 5,651 | 5,726 | 796 |
| Financial Activities | 397 | 381 | 364 | 364 | 367 | 374 |
| Manufacturing | 671 | 621 | 554 | 569 | 599 | 576 |
| Trade, Transportation and Utilities | 1,219 | 1,172 | 1,120 | 1,135 | 1,145 | 168 |
| Leisure and Hospitality | 534 | 524 | 513 | 518 | 534 | 538 |
| Educational and Health Services | 791 | 812 | 823 | 844 | 866 | 878 |
| Mining, Logging, Information & Other Services | 388 | 381 | 369 | 360 | 345 | 360 |
| Government | 854 | 857 | 857 | 842 | 827 | 823 |
| Professional and Business Services | 873 | 822 | 786 | 820 | 864 | 891 |
| Construction | 266 | 236 | 203 | 199 | 180 | 189 |

Source: U.S. Department of Labor, Bureau of Labor Statistics, July data as of October 2013

## Agriculture

Illinois ranks prominently among states for agricultural activity and exports. Tables A-4 and A-5 summarize key agricultural production statistics including rank among all states for the years 2007 to 2011.

**TABLE A-4**
**ILLINOIS CASH RECEIPTS FROM CROPS AND LIVESTOCK**
**($ in Millions)**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Crops | $10,662 | $13,077 | $13,098 | $13,713 | $17,220 | $17,034 |
| Livestock | 2,112 | 2,121 | 1,851 | 2,269 | 2,600 | 2,616 |
| **Total** | **$12,774** | **$15,197** | **$14,949** | **$15,983** | **$19,820** | **$19,650** |

Source: U.S. Department of Agriculture-Economic Research Service, data as of October 2013

**TABLE A-5**
**AGRICULTURAL EXPORTS**
**FEDERAL FISCAL YEAR 2011**
**($ in Millions)**

| Agricultural Exports | U.S. Total | Illinois Share | % of U.S. | Rank |
|---|---|---|---|---|
| All Commodities | $ 136,374 | $ 8,238 | 6.0% | 3 |
| Feeds | $ 5,745 | $ 1,019 | 17.7% | 2 |
| Grain Products | $ 4,098 | $ 474 | 11.6% | 2 |
| Soybeans | $ 17,563 | $ 2,515 | 14.3% | 2 |

Source: U.S. Department of Agriculture-Economic Research Service, current data as of October 2013

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**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)**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Illinois | 533 | 555 | 525 | 540 | 563 | 590 |
| United States | 11,912 | 12,460 | 11,930 | 12,373 | 12,950 | 13,729 |

Source: U.S. Department of Labor, Bureau of Labor Statistics, September data as of October 2013

**TABLE A-7**
**PER CAPITA PERSONAL INCOME**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2012 Rank |
|---|---|---|---|---|---|---|---|
| Illinois | 41,950 | 43,502 | 40,865 | 42,025 | 43,721 | 45,832 | 15 |
| United States | 39,506 | 40,947 | 38,637 | 39,791 | 41,560 | 43,735 | -- |
| **Ten Most Populous States:*** | | | | | | | |
| New York | 47,852 | 49,408 | 46,739 | 49,119 | 51,126 | 53,241 | 1 |
| California | 43,211 | 44,003 | 41,034 | 41,893 | 43,647 | 46,477 | 2 |
| **Illinois** | 41,950 | 43,502 | 40,865 | 42,025 | 43,721 | 45,832 | **3** |
| Pennsylvania | 38,927 | 40,674 | 39,210 | 40,444 | 42,291 | 45,083 | 4 |
| Texas | 37,098 | 39,615 | 36,595 | 38,222 | 40,147 | 42,638 | 5 |
| Florida | 39,256 | 39,978 | 36,849 | 38,345 | 39,636 | 41,012 | 6 |
| Ohio | 35,183 | 36,401 | 35,001 | 35,931 | 37,836 | 40,057 | 7 |
| Michigan | 34,419 | 35,288 | 33,221 | 34,326 | 36,264 | 38,291 | 8 |
| North Carolina | 34,761 | 35,741 | 34,001 | 34,604 | 36,028 | 37,910 | 9 |
| Georgia | 35,369 | 35,857 | 33,887 | 34,531 | 35,979 | 37,449 | 10 |
| **Great Lakes States:** | | | | | | | |
| **Illinois** | 41,950 | 43,502 | 40,865 | 42,025 | 43,721 | 45,832 | **1** |
| Iowa | 36,831 | 38,172 | 36,859 | 38,010 | 39,575 | 43,935 | 2 |
| Wisconsin | 35,183 | 36,401 | 35,001 | 35,931 | 37,836 | 42,121 | 3 |
| Michigan | 34,419 | 35,288 | 33,221 | 34,326 | 36,264 | 38,291 | 4 |
| Indiana | 33,645 | 34,894 | 33,163 | 34,028 | 35,689 | 38,119 | 5 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis, September data as of October 2013

## Employment

**TABLE A-8**
**NUMBER OF UNEMPLOYED**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| United States | 8,924,000 | 15,142,000 | 14,876,000 | 12,613,000 | 12,042,000 | 11,514,000 |
| Illinois | 433,700 | 674,692 | 620,983 | 627,586 | 574,902 | 604,532 |
| Bloomington-Normal MSA | 4,573 | 6,495 | 7,201 | 6,320 | 5,643 | 6,891 |
| Champaign-Urbana MSA | 6,929 | 9,987 | 11,038 | 9,400 | 8,430 | 9,959 |
| Chicago PMSA | 303,175 | 487,453 | 496,036 | 465,543 | 405,055 | 475,650 |
| Danville-MSA | 2,971 | 4,201 | 4,547 | 3,617 | 3,533 | 4,237 |
| Davenport-Moline-Rock Island MSA | 10,772 | 15,884 | 17,127 | 14,846 | 12,705 | 13,880 |
| Decatur MSA | 3,825 | 6,166 | 6,502 | 5,406 | 5,547 | 6,840 |
| Kankakee MSA | 4,803 | 6,746 | 7,511 | 6,342 | 5,720 | 6,179 |
| Peoria-Pekin MSA | 11,296 | 20,850 | 20,812 | 16,483 | 14,099 | 18,674 |
| Rockford MSA | 15,347 | 25,332 | 26,830 | 20,149 | 17,672 | 18,759 |
| Springfield MSA | 6,568 | 8,390 | 9,433 | 8,699 | 8,097 | 8,988 |

Source: U.S. Department of Labor, Bureau of Labor Statistics Data, July data as of October 2013

**TABLE A-9**
**UNEMPLOYMENT RATE (%)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013* |
|---|---|---|---|---|---|---|
| United States | 5.8 | 10.0 | 9.7 | 8.2 | 7.8 | 7.4 |
| Illinois | 6.5 | 10.1 | 9.8 | 9.4 | 8.7 | 9.2 |
| Bloomington-Normal MSA | 5.1 | 7.2 | 7.5 | 6.8 | 6.1 | 7.8 |
| Champaign-Urbana MSA | 5.7 | 8.3 | 9.0 | 7.8 | 7.2 | 8.9 |
| Chicago PMSA | 6.2 | 10.0 | 10.2 | 9.6 | 8.3 | 9.6 |
| Danville MSA | 8.2 | 11.5 | 12.1 | 9.9 | 9.9 | 11.8 |
| Davenport-Moline-Rock Island | 5.2 | 8.1 | 8.4 | 7.3 | 6.4 | 6.9 |
| Decatur MSA | 7.2 | 11.4 | 11.8 | 9.9 | 10.2 | 13.1 |
| Kankakee MSA | 8.8 | 12.1 | 13.1 | 10.8 | 10.0 | 11.2 |
| Peoria-Pekin MSA | 5.7 | 10.4 | 10.2 | 7.9 | 7.7 | 9.4 |
| Rockford MSA | 9.1 | 15.0 | 15.3 | 11.9 | 10.5 | 11.4 |
| Springfield MSA | 5.9 | 7.4 | 8.0 | 7.4 | 6.9 | 7.9 |

Source: U.S. Department of Labor, Bureau of Labor Statistics Data, July data as of October 2013

**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 2012.

**TABLE A-10**
**POPULATION**
**ILLINOIS AND SELECTED METROPOLITAN STATISTICAL AREAS**

| | 1980 | 1990 | 2000 | 2010 |
|---|---|---|---|---|
| Illinois | 11,427,409 | 11,430,602 | 12,419,293 | 12,830,632 |
| Chicago CMSA (IL Part) | 7,348,874 | 7,410,858 | 8,272,768 | 9,461,105 |
| St. Louis MSA (IL Part) | 588,464 | 588,995 | 599,845 | 684,849 |
| Rockford MSA | 325,852 | 329,676 | 371,236 | 349,431 |
| Peoria MSA | 365,864 | 339,172 | 347,387 | 379,186 |
| Springfield MSA | 187,770 | 189,550 | 201,437 | 210,170 |
| Champaign-Urbana MSA | 168,392 | 173,025 | 179,669 | 231,891 |

Source: U.S. Bureau of the Census, Population Division, Annual Estimates of the Population for Metropolitan Areas of Illinois, data current as of October 2013

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## APPENDIX B

## SUMMARY OF CERTAIN INFORMATION REGARDING THE ILLINOIS PENSION SYSTEMS

*Eligibility and Benefit Formulas.* The following are summaries of the eligibility and benefit formulas for each of the Retirement Systems:

### Teachers' Retirement System ("TRS")

<table>
<tr><td>A. Coverage</td><td>TRS members include all full-time, part-time, and substitute Illinois public school personnel employed outside the City of Chicago in positions requiring certification by the Illinois State Board of Education. Persons employed in certain State agencies relating to education are also TRS members.</td></tr>
<tr><td>B. Benefit Formula</td><td><u>Tier 1 Employees (hired prior to January 1, 2011)</u><br>• Based on the member's highest average salary earned during 4 consecutive years of service within the last 10 years of service.<br>• For post-June 1998 service, this average salary is multiplied by 2.2 % for each year of service.<br>• For service earned before July 1998 that is not upgraded to the 2.2% formula, the average salary is multiplied according to the following formula:<br>o 1.67% for each of the first 10 years, plus<br>o 1.90% for each of the second 10 years, plus<br>o 2.10% for each of the third 10 years, plus<br>o 2.30% for each year over 30.<br>• The benefit maximum is 75% of final average salary.<br><u>Tier 2 Employees (hired on or after January 1, 2011)</u><br>• Based on the member's highest average salary earned during 8 consecutive years within the last 10 years of service.<br>• The maximum salary for the purpose of calculating benefits is $106,800, adjusted annually by 3% or one-half of CPI (whichever is less).<br>• The same average salary multiplier and benefit maximum as Tier 1 Employees.</td></tr>
</table>

| | |
|---|---|
| **C. Retirement Age & Service Requirements** | Tier 1 Employees<br>• Age 62 with 5 years of service.<br>• Age 60 with 10 years of service.<br>• Age 55 with 35 years of service.<br>• *Reduced Benefit:* Age 55 with 20 years of service; annuity reduced by 1/2 of 1% for each month under age 60. A member can avoid a discounted annuity if the member makes a one-time contribution of 11.5% for each year under age 60 or under 35 years of service, whichever is less, and the school district contributes 23.5% percent for each year under age 60.<br>Tier 2 Employees<br>• Age 67 with 10 years of service.<br>• *Reduced Benefit:* Age 62, with at least 10 years of service; annuity reduced by 1/2 of 1% for each month under age 67. |
| **D. Surviving Spouse Benefit** | Tier 1 Employees<br>• An eligible survivor receives a minimum of 50% of the member's annuity, or 50% of the projected non-reduced benefit if death occurs when the member is actively contributing to TRS.<br>Tier 2 Employees<br>• An eligible survivor receives 66 2/3% of the member's annuity, or 66 2/3% of the projected non-reduced benefit if death occurs when the member is actively contributing to TRS. |
| **E. Refunds** | Employee contributions, not including interest or contributions for survivor benefits. |

*Sources: Website of TRS, http://trs.illinois.gov/; TRS Public Information Summary; TRS Tier I and Tier II Member Guides.*

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**<u>State Universities Retirement System ("SURS")</u>**

| **A. Coverage** | SURS covers all faculty and support staff of Illinois public higher education institutions including universities, colleges, Class I community colleges, and other related agencies. |
|---|---|

<table>
<tr>
<td>B. Benefit Formulas</td>
<td>
Defined Benefit Plans (Traditional Benefit Plan and Portable Benefit Plan)<br>
Benefits are calculated based on years of service and final rate of earnings ("FRE") using 3 primary calculations for which SURS has developed formula tables—a General Formula, a Money Purchase Formula (not available to participants hired on or after July 1, 2005), and a Minimum Annuity. There is a special formula for police and firefighters.<br>
<u>Tier 1 Employees (hired prior to January 1, 2011)</u>
<ul>
<li>Based on final rate of earnings ("FRE"), i.e., (a) highest average earnings during 4 consecutive academic years or (b) the average of the last 4 years prior to termination (applicable only to certain employees).</li>
<li>FRE is limited to 20% year-to-year increases in earnings during the FRE period.</li>
<li>Employment termination before July 7, 1997: The benefit maximum under any formula at age 62 or earlier cannot exceed 75% of FRE. The maximum is 76% at age 63, 78% at age 64, and 80% at age 65 or later. A person who began participation after September 14, 1977, is subject to a maximum of 75% of FRE.</li>
<li>Employment terminated on or after July 7, 1997: The benefit maximum under any formula cannot exceed 80% of FRE.</li>
</ul>
<u>Tier 2 Employees (hired on or after January 1, 2011)</u>
<ul>
<li>FRE is the highest average rate of earnings during 8 consecutive years within the last 10 years of service.</li>
<li>FRE is limited to 20% increases in earnings during the FRE period. The maximum salary for FRE purposes is $106,800, adjusted annually by 3% or one-half of CPI (whichever is less).</li>
<li>The benefit maximum is 80% of FRE.</li>
</ul>
<u>Police & Firefighters</u>
<ul>
<li>For those retiring after 1997 with 20 years of service as a firefighter or police officer, the FRE shall be the annual rate of earnings received by the members on his or her last day, if that is greater than the FRE otherwise applicable.</li>
<li>Special Formula: 2.25% for each of the first 10 years of such service, plus 2.5% for each of the second 10 years, plus 2.75% for each year thereafter.</li>
<li>The benefit maximum is 80% of FRE.</li>
</ul>
<u>Money Purchase Formula</u>:
<ul>
<li>The member contributions for retirement benefits accumulated (a) with interest at the Effective Rate of Interest ("ERI"), plus (b) an imputed employer contribution match at $1.40 per dollar of member contribution accumulated with interest at the ERI.</li>
<li>The total of the accumulations in (a) and (b) is converted into an annuity using a life annuity factor that takes into account neither the automatic 50% spousal survivor benefit nor the automatic annual increases.</li>
</ul>
</td>
</tr>
</table>

<table>
<tr><td></td><td><ul><li>ERI means the interest rate credited to member contribution accounts for most purposes. Effective beginning with Fiscal Year 2006, ERI for the purpose of determining the money purchase benefit is established annually by the Comptroller.</li></ul><br>SURS also provides a defined contribution Self-Managed Plan for certain of its members.</td></tr>
<tr><td>C. Retirement Age & Service Requirements</td><td>Defined Benefit Plans<br><u>Tier 1 Employees</u><ul><li>Age 62, with at least 5 years of service.</li><li>Age 60, with at least 8 years of service.</li><li>At any age with at least 30 years of service.</li><li>Reduced Benefit: Age 55, with at least 8 years of service; annuity reduced by 1/2 of by 1% for each month under age 60.</li><li>Police & Firefighters: Age 50, with at least 25 years of service as a police officer or firefighter covered by SURS; or age 55, with at least 20 years of such service.</li></ul><u>Tier 2 Employees</u><ul><li>Age 67, with at least 10 years of service.</li><li>Reduced Benefit: Age 62, with at least 10 years of service; annuity reduced by 1/2 of by 1% for each month under age 67.</li><li>Police & Firefighters: Age 67, with at least 20 years of service as a police officer or firefighter covered by SURS; or age 62, with at least 20 years of such service (reduced benefits).</li></ul>Self-Managed Plan<br>Minimum vesting requirements: 5 years of service credit at age 62, 8 years of service credit at age 55, or 30 years of service credit regardless of age.</td></tr>
<tr><td>D. Surviving Spouse Benefit</td><td>Traditional Benefit Plan: Eligible survivors may receive monthly benefits if the participant had at least 1.5 years of service prior to death.<br>Portable Benefit Plan: Survivor benefits are available through a reduction of the retirement annuity.<br><u>Tier 1 Employees</u><ul><li>An eligible survivor receives a minimum of 50% of the member's annuity under the Traditional Benefit Plan.</li></ul><u>Tier 2 Employees</u><ul><li>An eligible survivor receives 66 2/3% of the member's annuity under the Traditional Benefit Plan.</li></ul></td></tr>
<tr><td>E. Refunds</td><td>Traditional Benefit Plan: Employee contributions and interest not to exceed 4 1/2%.<br>Portable Benefit Plan: Employee contributions and total interest credited, plus for those members with greater than or equal to 5 years of service credit, an equal amount of employer contributions.</td></tr>
</table>

Sources: *Website of SURS, http://www.surs.org/homepage.surs; SURS Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2010; SURS Member Guides*.

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**State Employees' Retirement System ("SERS")**

<table>
<tr><td>A. Coverage</td><td>Generally, all persons entering State service become members unless their position is subject to membership in another State-supported system. Employees appointed by the Governor and requiring confirmation by the Illinois Senate may elect membership.</td></tr>
<tr><td>B. Benefit Formula</td><td><u>Tier 1 Employees (hired prior to January 1, 2011):</u><br>Regular Formula<br>• Based on final average compensation ("FAC"), i.e., the highest average compensation earned during 4 consecutive years of service within the last 10 years of service.<br>• Formula: 1.67% for each year of Social Security-covered service and 2.2% for each year of noncovered service.<br>• The benefit maximum is 75% of FAC.<br>Alternative Formula (e.g., various state-level police, investigators, firefighters, etc.)<br>• FAC is the greater of (a) the average of the last 4 years of service or (b) the final rate of pay (not to exceed 115% of the average monthly compensation received in the last 2 years of service) or (c) for members in service before January 1, 1998, the highest average earned during 4 consecutive years of service within the last 10 years of service. Formula: 2.5% for each year of covered service and 3.0% for each year of noncovered service.<br>• The benefit maximum is 80% of FAC.<br><u>Tier 2 Employees (hired on or after January 1, 2011)</u><br>Regular Formula<br>• FAC is the highest average compensation earned during 8 consecutive years of service within the last 10 years of service.<br>• The maximum salary for FAC purposes is $106,800, adjusted annually by 3% or one-half of CPI (whichever is less).<br>• The benefit formula and maximum remain the same as for Tier 1 employees.<br>Alternative Formula<br>• Eligibility limited to State police, firefighters, and security employees with the Departments of Corrections and Juvenile Justice.<br>• FAC is the same for as the FAC for Regular Formula Tier 2 employees.<br>• The benefit formula and maximum remain the same as for Tier 1 employees eligible for the Alternative Formula.</td></tr>
<tr><td>C. Retirement Age & Service Requirements</td><td><u>Tier 1 Employees</u><br>• Age 60 with 8 years of service.<br>• When an employee's age and service equal 85 years.<br>• Reduced Benefit: Between ages 55-60 with 25-30 years of service; annuity reduced by 1/2 of 1% for each month under age 60.<br>• Alternative Formula: Age 50 with at least 25 years of eligible service, or at age 55 with at least 20 years of eligible service.<br><u>Tier 2 Employees</u><br>• Age 67, with 10 years of service.<br>• Reduced Benefit: Between ages 62-67 with 10 years of service; annuity reduced by 1/2 of 1% for each month under age 67.<br>• Alternative Formula: Age 60 with 20 years of eligible service.</td></tr>
</table>

| | |
|---|---|
| **D. Surviving Spouse Benefit** | Survivor benefits vary greatly, depending on amount of earned pension benefit, time of death, age of the surviving spouse, and whether the spouse supports dependent or disabled children. |
| **E. Refunds** | Employee contributions without interest. |

*Source: Website of SERS, http://www.state.il.us/srs/SERS/Home_sers.htm; SERS Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2010.*

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## Judges' Retirement System ("JRS")

| | |
|---|---|
| **A. Coverage** | The Judges' Retirement System covers all persons elected or appointed judges or associate judges and, under certain conditions, the Administrative Director of the Illinois courts. |
| **B. Benefit Formula** | Tier 1 Employees (hired prior to January 1, 2011)<br>• Based on the member's final rate of salary, or, for any member terminating service after July 14, 1995, on the highest salary received as a judge for at least 4 consecutive years, whichever is greater, after 20 years of service.<br>• Formula:<br>o 3.5% for the first 10 years of service.<br>o 5.0% for each year after 10 years.<br>• The benefit maximum is 85% of final average salary.<br>Tier 2 Employees (hired on or after January 1, 2011)<br>• Based on the member's final average salary, i.e., the highest average salary earned during 8 consecutive years within the last 10 years of service.<br>• The maximum salary for the purpose of calculating benefits is $106,800, adjusted annually by 3% or the annual change in CPI (whichever is less).<br>• Formula: 3% of the member's final average salary for each year of service.<br>• The benefit maximum is 60% of the member's final average salary. |
| **C. Retirement Age & Service Requirements** | Tier 1 Employees<br>• At age 55 with 26 years of service.<br>• At age 60 with 10 years of service.<br>• At age 62 with 6 years of service.<br>• *Reduced Benefit:* Age 55 with 10 years of service; annuity reduced by 1/2 of 1% for each month under age 60. However, for a member who retires on or after December 10, 1999, the percentage reduction in the annuity shall be reduced by 5/12 of 1% for every month of service in excess of 20 years.<br>Tier 2 Employees<br>• Age 67 with 8 years of service<br>• *Reduced Benefit:* Age 62, with at least 8 years of service; annuity reduced by 1/2 of 1% for each month under age 62. |
| **D. Surviving Spouse Benefit** | Tier 1 Employees<br>• *Death in Service:* 7.5% of salary or 66 2/3% of earned retirement annuity, whichever is greater.<br>• *Death in Retirement:* 66 2/3% of earned retirement annuity.<br>Tier 2 Employees<br>• An eligible survivor receives 66 2/3% of the member's annuity. |
| **E. Refunds** | Employee contributions without interest. |

*Source: Website of JRS, http://www.state.il.us/srs/Judges/Home_jrs.htm; JRS Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2010.*

**General Assembly Retirement System ("GARS")**

| | |
|---|---|
| **A. Coverage** | GARS covers members of the General Assembly of the State and persons elected to the offices of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller and Attorney General for the period of service in such offices. Any person who has served 10 or more years as Clerk or Assistant Clerk of the House of Representatives, Secretary or Assistant Secretary of the Senate or any combination thereof, may elect to become a participant. |
| **B. Benefit Formula** | Tier 1 Employees (hired prior to January 1, 2011)<br>• Based on the member's final rate of salary.<br>• Formula:<br>o 3.0% for the first 4 years of service.<br>o 3.5% for the next 2 years of service.<br>o 4.0% for the next 2 years of service.<br>o 4.5% for the next 4 years of service.<br>o 5.0% for each year after 12 years.<br>• The benefit maximum is 85% of final salary.<br>Tier 2 Employees (hired on or after January 1, 2011)<br>• Based on the member's final average salary, i.e., the highest average salary earned during 8 consecutive years within the last 10 years of service.<br>• The maximum salary for the purpose of calculating benefits is $106,800, adjusted annually by 3% or the annual change in CPI (whichever is less).<br>• Formula: 3% of the member's final average salary for each year of service.<br>• The benefit maximum is 60% of the member's final average salary. |
| **C. Retirement Age & Service Requirements** | Tier 1 Employees<br>• Age 55 with 8 years of service.<br>• Age 62 with 4 years of service.<br>Tier 2 Employees<br>• Age 67 with 8 years of service<br>• *Reduced Benefit:* Age 62, with at least 8 years of service; annuity reduced by 1/2 of 1% for each month under age 67. |
| **D. Surviving Spouse Benefit** | Tier 1 Employees<br>• Survivor benefits vary depending on amount of earned pension benefit, time of death, and whether dependent or disabled children are being supported. In most cases, an eligible survivor receives a 66 2/3% of the member's annuity.<br>Tier 2 Employees<br>• An eligible survivor receives 66 2/3% of the member's annuity. |
| **E. Refunds** | Employee contributions without interest. |

*Sources: Website of GARS, http://www.state.il.us/srs/gars/home_gars.htm; GARS Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2010.*

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# APPENDIX C-1

## FORM OF APPROVING OPINIONS OF INITIAL CO-BOND COUNSEL

**[LETTERHEAD OF CHAPMAN AND CUTLER LLP AND
BURRIS, WRIGHT, SLAUGHTER & TOM LLC]**

**October 29, 2003**

We have acted as co-bond counsel in connection with the issuance by the State of Illinois (the *"State"),* of its Variable Rate General Obligation Bonds, Series B of October 2003, in the aggregate principal amount of $600,000,000, dated the date hereof (the *"Bonds").* The Bonds are issued pursuant to a bond sale order of the Governor and the Director of the Governor's Office of Management and Budget of the State, dated October 29, 2003 (the *"Bond Sale Order"),* and an Indenture of Trust, dated as of October 1, 2003 (the *"Indenture"),* between the State and Bank One, National Association, as trustee (the *"Trustee").* The Bonds are being issued in fully registered form, mature on the date or dates and bear interest as described in the Indenture.

Subject to the terms and conditions set forth in the Indenture, the Bonds are subject to optional and mandatory redemption and optional and mandatory tender prior to maturity.

In our capacity as co-bond counsel, we have examined, among other things, the following:

(a) a certified copy of the proceedings approving the Bond Sale Order and authorizing, among other things, the execution and delivery of the Bonds and the Indenture;

(b) a certified copy of the Bond Sale Order and executed counterpart of the Indenture;

(c) a form of Bond; and

(d) such other documents and showings and related matters of law as we have deemed necessary in order to render this opinion.

Based upon the foregoing, we are of the opinion as follows:

1. The State has full power and authority and has taken all necessary action to approve the Bond Sale Order and to execute and deliver the Indenture.

2. Assuming the due authorization, execution and delivery of the Indenture by the Trustee and the binding effect of the Indenture on the Trustee, the Bond Sale Order and the Indenture are the valid and binding obligations of the State, enforceable according to their terms, except the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

3. The Bonds, to the amount named, are valid and legally binding upon the State, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by

bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion, and constitutes a direct, general obligation of the State, for the prompt payment of which, both principal and interest as the same become due, the full faith and credit of the State have been validly pledged.

4. Subject to the State's compliance with certain covenants, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes and is not an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such State covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds. In rendering our opinion on tax exemption, we have relied on the mathematical computation of the yield on the Bonds and the yield on certain investments by Causey Demgen & Moore Inc., Denver, Colorado. We express no opinion concerning the inclusion of interest as gross income on any Bond while it is held by the Liquidity Provider after a failed remarketing of the Bonds, or after it has been held by the Liquidity Provider in such circumstances for 30 days or more.

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

# APPENDIX C-2

## FORM OF OPINION OF 2013 BOND COUNSEL

[DATE]

State of Illinois
Springfield, Illinois

The Bank of New York Mellon Trust Company, N.A.
Chicago, Illinois

Re: State of Illinois
Variable Rate General Obligation Bonds, Series B
of October 2003

Ladies and Gentlemen:

We have acted as bond counsel to the State of Illinois (the "State"), in connection with the transaction described in this opinion. On October 29, 2003 (the "Date of Issuance"), the State issued its $600,000,000 Variable Rate General Obligation Bonds, Series B of October 2003 (the "Bonds"), pursuant to the terms of an Indenture of Trust, dated as of October 1, 2003, as amended and supplemented (the "Indenture"), by and between the State and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee"). On the Date of Issuance, the State entered into a Standby Bond Purchase Agreement (the "Depfa Agreement"), dated as of October 1, 2003, among the State, the Trustee and Depfa Bank, PLC ("Depfa"), pursuant to which Depfa agreed to purchase tendered Bonds under the circumstances set forth therein.

Terms used herein that are defined in the Indenture shall have the meanings ascribed thereto in the Indenture. On the date hereof, pursuant to direction from and with the consent of the beneficial owners of 100% in aggregate principal amount of the Bonds:

(i) the State and the Trustee are entering into a First Supplement to Indenture of Trust, dated as of November 1, 2013 (the "First Supplemental Indenture");

(ii) the State, the Trustee and Depfa are terminating the Depfa Agreement; and

(iii) the State and JPMorgan Chase Bank, National Association, PNC Bank, National Association, Wells Fargo Bank, National Association, State Street Bank and Trust Company, Royal Bank of Canada and The Northern Trust Company are entering into a Letter of Credit and Reimbursement Agreement, dated as of November 1, 2013 (the "Reimbursement Agreement") pursuant to which each bank party thereto is issuing its respective irrevocable letters of credit (the "Letters of Credit") to provide credit and liquidity support for the Bonds.

The actions described in the preceding paragraph are hereinafter collectively referred to as the "Transaction." No changes to the terms of the Bonds or the Indenture, other than those contained in the First Supplemental Indenture and the Reimbursement Agreement, have been made or are currently contemplated to be made in the future.

We have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, records and other instruments and such matters of law as we have deemed necessary for the purposes of this opinion, including particularly the following:

(i) the Indenture;

(ii) the First Supplemental Indenture;

(iii) the Reimbursement Agreement; and

(iv) the Remarketing Agreement, dated as of November 1, 2013 (the "Remarketing Agreement") between the State and Barclays Capital Inc. with respect to the Bonds.

On the basis of that examination, we are of the opinion that:

1. The Transaction, in and of itself, will not impair the exclusion of interest on the Bonds from the gross income of the owners thereof for purposes of Federal income taxation to the extent such exclusion was otherwise available to interest on the Bonds.

2. The State has full power and authority to execute and deliver the First Supplemental Indenture, the Reimbursement Agreement and the Remarketing Agreement.

3. The First Supplemental Indenture, the Reimbursement Agreement and the Remarketing Agreement have each been duly authorized, executed and delivered by and on behalf of the State and, assuming the due authorization, execution and delivery thereof by the other parties thereto, the First Supplemental Indenture, the Reimbursement Agreement and the Remarketing Agreement constitute the binding agreements of the State enforceable in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally and except that enforcement by an equitable or similar remedy, is subject to general principals of law and equity governing such a remedy, including the exercise of judicial discretion whether to grant any particular form of relief, and except as to provisions with respect to which the State is obligated to indemnify or provide expense reimbursement, indemnification or contribution for any party, as to which we render no opinion.

4. The First Supplemental Indenture has been duly and lawfully executed and delivered by the State and the Trustee in accordance with the provisions of the Indenture and are authorized or permitted thereby.

The opinions set forth above are limited to the matters expressly stated therein. Except as stated above, we have not been requested, nor have we undertaken, to review any matter relating to the

Transaction or the tax-exempt status of interest on the Bonds. This opinion is based on law and facts in effect on and prior to the date hereof with respect to the Bonds and we assume no obligation to advise you of changes thereto occurring in the future. This opinion is for the sole benefit of the addressees. No other person may rely upon this opinion without our prior written consent.

Sincerely,


SEAL OF THE STATE OF ILLINOIS
NATIONAL UNION
STATE SOVEREIGNTY
1868
1818
AUG. 26TH 1818

## APPENDIX D

## SUMMARY OF RECOMMENDATIONS FROM THE STATE ACTUARY REGARDING THE ILLINOIS PENSION SYSTEMS

| **RECOMMENDATIONS TO THE RETIREMENT SYSTEMS** | | | | | |
|---|---|---|---|---|---|
| **Recommendations** | **TRS** | **SURS** | **SERS** | **JRS** | **GARS** |
| **Recommended Changes to Actuarial Assumptions used in the 2012 Actuarial Valuations:** | | | | | |
| Cheiron reviewed the actuarial assumptions and concluded that they were reasonable. Consequently, Cheiron did not have any recommended changes to assumptions this year. | | | | | |
| **Recommended Additional Disclosures for the 2012 Actuarial Valuations:** | | | | | |
| □ Disclose the merit pay increase assumption by age and active employment status | X | | | | |
| □ Disclose how the New Entrant Profile assumption was developed | X | X | | X | X |
| □ Include projections of the maximum contribution calculation without Government Obligation Bonds | | X | | | |
| □ Offer an explanation of the loss due to retirees from active status | | | X | | |
| □ Explore the actuarial liability loss item for salary increases of inactive members and add an actuarial assumption if necessary | | | | | X |
| **Recommended Changes for Future Actuarial Valuations:** | | | | | |
| □ Consider lowering the interest rate assumption below its current level and annually review the interest rate assumption | X | X | X | | |
| □ Provide better explanation of unexplained annual liability losses | X | | | | |
| □ Consider establishing a corridor around the market value of assets of 80% to 120% beyond which the actuarial value is limited | X | X | X | X | X |
| □ Include a complete disability incidence table | | X | | | |
| □ Continued examination of the recurring loss for benefit recipients and adjustment to assumptions if the loss persists | | X | | | |
| □ Demonstrate the development of the capped pay calculation | | X | | | |
| □ Consider increasing the 1% of salary load for disability benefits | | | X | | |
| □ Disclose the specific data referred to in the description as to how the New Entrant Profile assumption was developed | | | X | | |
| □ Consider using a fully generational mortality table | | | | X | X |
| □ Consider using actual data available rather than an assumption for determining if a member will choose a benefit option that provides a survivor annuity | | | | X | |
| □ Consider eliminating the disability assumption | | | | X | X |
| Source: OAG summary of Cheiron's preliminary reports to the five State-funded retirement systems. | | | | | |

SEAL OF THE STATE OF ILLINOIS
AUG. 26TH 1818

## APPENDIX E

## GLOBAL BOOK-ENTRY SYSTEM

**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.

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

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

PORTIONS OF THE INFORMATION BELOW CONCERNING DTC, AND DTC'S BOOK ENTRY SYSTEM ARE BASED ON INFORMATION FURNISHED BY DTC TO THE STATE. NO REPRESENTATION IS MADE HEREIN BY THE STATE, THE BOND REGISTRAR OR THE REMARKETING AGENT 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 REMARKETING CIRCULAR.

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 a Standard & Poor's rating of AA+. 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.

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 neither of the State nor the Bond Registrar takes any responsibility for the accuracy thereof.

## APPENDIX F-1

## CERTAIN INFORMATION CONCERNING JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

JPMorgan Chase Bank, National Association (the "Bank") is a wholly owned subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of June 30, 2013, JPMorgan Chase Bank, National Association had total assets of $1,947.8 billion, total net loans of $604.2 billion, total deposits of $1,249.5 billion, and total stockholder's equity of $151.5 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income (the "Call Report") as of June 30, 2013, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles. The Call Report including any update to the above quarterly figures is filed with the Federal Deposit Insurance Corporation and can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2012, of JPMorgan Chase & Co., the 2012 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "SEC") by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Remarketing Circular is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov.

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The information contained in this Appendix relates to and has been obtained from the Bank. The delivery of the Remarketing Circular shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

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# APPENDIX F-2

# CERTAIN INFORMATION CONCERNING PNC BANK, NATIONAL ASSOCIATION

**This summary incorporates by reference certain Call Reports of PNC Bank, National Association ("PNC Bank"), filed with the Office of the Comptroller of the Currency ("OCC"), and certain reports of its parent, The PNC Financial Services Group, Inc. ("PNC Financial"), filed with the Securities and Exchange Commission ("SEC"), as set forth below under the heading "Incorporation of Certain Documents by Reference." You should read those reports and the information set forth below under the headings "PNC Bank and PNC Financial" and "Supervision and Regulation."**

**You should also understand that, except to the limited extent described herein, this summary does not describe the business or analyze the condition, financial or otherwise, of PNC Bank or otherwise describe any risks associated with PNC Bank or the Letter of Credit. You must rely on your own knowledge, investigation and examination of PNC Bank and PNC Bank's creditworthiness.**

**Neither PNC Bank nor PNC Financial makes any representation regarding the Bonds or the advisability of investing in the Bonds, nor do they make any representation regarding, nor has PNC Bank or PNC Financial participated in the preparation of, any document of which this summary is a part other than the information supplied by PNC Bank or PNC Financial and presented in this summary headed "PNC Bank, National Association."**

**THE LETTER OF CREDIT IS SOLELY AN OBLIGATION OF PNC BANK AND IS NEITHER AN OBLIGATION OF NOR GUARANTEED BY PNC FINANCIAL OR ANY OF ITS OTHER AFFILIATES.**

**PNC Bank and PNC Financial**

PNC Bank is a national banking association with its headquarters in Pittsburgh, Pennsylvania and its main office in Wilmington, Delaware. PNC Bank is a wholly-owned indirect subsidiary of PNC Financial and is PNC Financial's principal bank subsidiary. PNC Bank's origins as a national bank date to 1865. PNC Bank offers a wide range of commercial banking, retail banking, residential mortgage banking, and trust and wealth management services to its customers. PNC Bank's business is subject to examination and regulation by federal banking authorities. Its primary federal bank regulator is the OCC and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC").

PNC Financial, the parent company of PNC Bank, was incorporated under the laws of the Commonwealth of Pennsylvania in 1983 with the consolidation of Pittsburgh National Corporation and Provident National Corporation. Since 1983, PNC Financial has diversified its geographic presence, business mix and product capabilities through internal growth, strategic bank and non-bank acquisitions and equity investments, and the formation of various non-banking subsidiaries.

PNC Financial is one of the largest diversified financial services companies in the United States and is headquartered in Pittsburgh, Pennsylvania. PNC Financial has businesses engaged in retail banking, corporate and institutional banking, asset management, and residential mortgage banking. PNC Financial provides many of its products and services nationally, as well as products and services in PNC Financial's primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, North Carolina, Florida, Kentucky, Washington, D.C., Delaware, Alabama, Virginia, Georgia, Missouri, Wisconsin and South Carolina. PNC Financial also provides certain products and services internationally.

PNC Financial
*in billions*

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Total assets | $308.6 | $305.1 |
| Total deposits | $216.1 | $213.1 |
| Shareholders' equity | $41.1 | $39.0 |

PNC Bank
*in billions*

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Total assets | $298.5 | $295.0 |
| Total loans (net of unearned income) and loans held for sale | $195.6 | $189.7 |
| Total deposits | $220.6 | $216.7 |
| Total bank equity capital | $36.1 | $36.3 |
| Total equity capital | $37.9 | $38.4 |

**Supervision and Regulation**

PNC Financial, the parent company of PNC Bank, is a bank holding company and a financial holding company and is subject to numerous governmental regulations involving both its business and organization. To a substantial extent, the purpose of the regulation and supervision of financial services institutions and their holding companies is not to protect shareholders and non-customer creditors, but rather to protect customers (including depositors) and the financial markets in general.

PNC Financial's businesses are subject to regulation by multiple bank regulatory bodies as well as multiple securities industry regulators. Applicable laws and regulations restrict permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, investment management and other customers, and for the protection of customer information, among other things. Applicable laws and regulations also restrict PNC Financial's ability to repurchase stock or pay dividends, or to receive dividends from subsidiaries that operate in the banking and securities businesses, and impose capital adequacy requirements. PNC Financial and its subsidiaries are also subject to laws and regulations designed to combat money laundering, terrorist financing, and transactions with persons, companies or foreign governments designated by U.S. authorities. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions as well as damage to reputation and businesses. In addition, PNC Financial and PNC Bank are subject to comprehensive examination and supervision by banking and other regulatory bodies. Examination reports and ratings (which often are not publicly available) and other aspects of this supervisory framework can materially impact the conduct, growth, and profitability of the company's businesses.

There have been numerous legislative and regulatory developments and dramatic changes in the competitive landscape of the financial services industry over the last several years. The United States and other governments have undertaken major reform of the regulation of the financial services industry, including engaging in new efforts to impose requirements designed to strengthen the stability of the financial system and protect consumers and investors. PNC Financial expects to face further increased regulation of the financial services industry as a result of current and future initiatives intended to provide economic stimulus, financial market stability, and enhanced regulation of financial services companies and to enhance the liquidity and solvency of financial institutions and markets. PNC Financial and PNC Bank also expect in many cases more intense scrutiny from their supervisors in the examination process and more aggressive enforcement of regulations on both the federal and state levels. Compliance with new regulations will increase the company's costs and reduce its revenue. Some new regulations may limit the company's ability to pursue certain desirable business opportunities.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), enacted in July 2010, mandates the most wide-ranging overhaul of financial industry regulation in decades. Many parts of the law are now in effect, and others are now in the implementation stage, which is likely to continue for several years.

Additional information concerning recent legislative and regulatory developments, including developments related to the implementation of the international Basel III framework in the United States and changes to the U.S. regulatory capital standards by U.S. banking agencies, as well as certain governmental, legislative and regulatory inquiries and investigations that may affect PNC Financial, and a general discussion of some of the elements of the regulatory framework affecting PNC Financial and its subsidiaries and discussion of certain business, regulatory and legal risks that affect PNC Financial can be found in the following sections of PNC Financial's 2012 Annual Report on Form 10-K, as such discussion may be amended or updated in other reports filed by PNC Financial with the SEC: the Supervision and Regulation section included in Item 1; the Risk Factors included in Item 1A; the Recent Market and

Industry Developments and Risk Management sections included in Item 7; and the Regulatory Matters, Legal Proceedings, and Commitments and Guarantees Notes of the Notes To Consolidated Financial Statements included in Item 8.

**Incorporation of Certain Documents by Reference**

PNC Bank submits quarterly to the OCC, its primary federal bank regulator, certain unaudited reports called "Consolidated Reports of Condition and Income" ("Call Reports"). Each Call Report consists of a balance sheet, income statement, information on changes in equity capital, and other supporting schedules as of the end of or for the period to which the report relates. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. Because of the special supervisory, regulatory and economic policy needs served by the Call Reports, those regulatory instructions do not in all cases follow accounting principles generally accepted in the United States, including the opinions and statements of the Accounting Principles Board or the Financial Accounting Standards Board ("U.S. GAAP"). While the Call Reports are supervisory and regulatory documents, not primarily financial accounting documents, and do not provide a complete range of financial disclosure about PNC Bank, the reports nevertheless provide important information concerning the financial condition and results of operations of PNC Bank.

The publicly available portions of the Call Reports are on file with, and publicly available on written request to, the FDIC, Public Information Center, 3501 North Fairfax Drive, Arlington, VA 22226, or by calling the FDIC Public Information Center at 877-275-3342 or 703-562-2200. The Call Reports are also available by accessing the FDIC's website at http://www.fdic.gov.

PNC Financial, the parent company of PNC Bank, is subject to the informational requirements of the Securities Exchange Act of 1934 as amended ("Exchange Act"). In accordance with the Exchange Act, PNC Financial files annual, quarterly and current reports, proxy statements, and other information with the SEC. PNC Financial's SEC File Number is 001-09718. You may read and copy this information at the SEC's Public Reference Room, located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 or 202-551-8090. You can also obtain copies of this information by mail from the public reference section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates.

The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers, like PNC Financial, who file electronically with the SEC. The address of that website is www.sec.gov. You can also inspect reports, proxy statements and other information about PNC Financial at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We have included the web addresses of the FDIC and the SEC as inactive textual references only. Except as specifically incorporated by reference into this summary, information on those websites is not part hereof.

The publicly-available portions of PNC Bank's Call Reports for the years ended December 31, 2012, December 31, 2011, and December 31, 2010 and the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013, and of any amendments or supplements thereto, as filed by PNC Bank with the OCC, are incorporated herein by reference. The publicly-available portions of each other PNC Bank Call Report, and of any amendments or supplements thereto or to any of the PNC Bank Call Reports listed above, filed with the OCC after December 31, 2012 and prior to the expiration of the Letter of Credit are also incorporated herein by reference and will be deemed a part hereof from the date of filing of each such document. Subsequently filed reports, and amendments or supplements to reports, will automatically update and supersede prior information.

In addition to the Call Reports referred to above, PNC Bank incorporates herein by reference the following documents: PNC Financial's Annual Report on Form 10-K for the year ended December 31, 2012; PNC Financial's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013; PNC Financial's Current Reports on Form 8-K filed with the SEC on February 7, 2013, February 21, 2013, March 1, 2013 (with respect to Item 5.02), March 15, 2013, March 19, 2013, March 22, 2013, April 8, 2013, April 29, 2013, May 1, 2013, May 7, 2013, June 7, 2013, August 1, 2013, August 15, 2013, September 6, 2013 and September 13, 2013; and any amendments or supplements to those reports. Each other annual, quarterly and current report, and any amendments or supplements thereto or to any of the PNC Financial reports listed above, filed by PNC Financial with the SEC pursuant to

Section 13(a) or 15(d) of the Exchange Act after December 31, 2012 and prior to the expiration of the Letter of Credit is also incorporated herein by reference and will be deemed a part hereof from the date of filing of each such document. Subsequently filed reports, and amendments or supplements to reports, will automatically update and supersede prior information. The information incorporated by reference herein does not include any report, document or portion thereof that PNC Financial furnishes to, but does not file with, the SEC unless otherwise specifically provided above.

Neither the delivery of this document nor the sale of any Bonds will imply that the information herein or in any document incorporated by reference is correct as of any time after its date. Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for purposes hereof to the extent that a statement contained therein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part hereof.

Any of the above documents incorporated herein by reference (other than exhibits to such documents unless such exhibits are specifically incorporated by reference into such documents) are available upon request by holders of the Bonds or by prospective investors in the Bonds without charge: (1) in the case of PNC Bank documents, by written request addressed to Ronald Lewis, Manager of Regulatory Reporting, at The PNC Financial Services Group, Inc., One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707; or (2) in the case of PNC Financial documents, (a) for copies without exhibits, by contacting Shareholder Services at 800-982-7652 or via the online contact form at wwww.computershare.com/contactus, and (b) for exhibits, by contacting Shareholder Relations at 800-843-2206 or via e-mail at investor.relations@pnc.com. The interactive data file ("XBRL") exhibit is only available electronically.

## APPENDIX F-3

## CERTAIN INFORMATION CONCERNING WELLS FARGO BANK, NATIONAL ASSOCIATION

*The information under this heading has been provided solely by Wells Fargo Bank, National Association (the "Bank") and is believed to be reliable. This information has not been verified independently by the State or the Remarketing Agent. The State and the Remarketing Agent make no representation whatsoever as to the accuracy, adequacy or completeness of such information.*

### Wells Fargo Bank, National Association

The Bank is a national banking association organized under the laws of the United States of America with its main office at 101 North Phillips Avenue, Sioux Falls, South Dakota 57104, and engages in retail, commercial and corporate banking, real estate lending and trust and investment services. The Bank is an indirect, wholly-owned subsidiary of Wells Fargo & Company ("Wells Fargo"), a diversified financial services company, a financial holding company and a bank holding company registered under the Bank Holding Company Act of 1956, as amended, with its principal executive offices located in San Francisco, California ("Wells Fargo").

The Bank prepares and files Call Reports on a quarterly basis. Each Call Report consists of a balance sheet as of the report date, an income statement for the year-to-date period to which the report relates and supporting schedules. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure about the Bank, the reports nevertheless provide important information concerning the Bank's financial condition and results of operations. The Bank's Call Reports are on file with, and are publicly available upon written request to the FDIC, 550 17th Street, N.W., Washington, D.C. 20429, Attention: Division of Insurance and Research. The FDIC also maintains an internet website that contains the Call Reports. The address of the FDIC's website is http://www.fdic.gov. The Bank's Call Reports are also available upon written request to the Wells Fargo Corporate Secretary's Office, Wells Fargo Center, MAC N9305-173, 90 South 7th Street, Minneapolis, MN 55479.

**The Letter of Credit for the Series 2003B-3 Bonds will be solely an obligation of the Bank and will not be an obligation of, or otherwise guaranteed by, Wells Fargo & Company, and no assets of Wells Fargo & Company or any affiliate of the Bank or Wells Fargo & Company will be pledged to the payment thereof. Payment of the Letter of Credit will not be insured by the FDIC.**

The information contained in this section, including financial information, relates to and has been obtained from the Bank, and is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Any financial information provided in this section is qualified in its entirety by the detailed information appearing in the Call Reports referenced above. The delivery hereof shall not create any implication that there has been no change in the affairs of the Bank since the date hereof.

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## APPENDIX F-4

### CERTAIN INFORMATION CONCERNING STATE STREET BANK AND TRUST COMPANY

State Street Bank and Trust Company (the "Bank") is a wholly-owned subsidiary of State Street Corporation (the "Corporation"). The Corporation (NYSE: STT) is the world's leading provider of financial services to institutional investors including investment servicing, investment management and investment research and trading. With $24.37 trillion in assets under custody and administration and $2.09 trillion in assets under management, the Corporation operates in more than 100 geographic markets worldwide. The consolidated total assets of the Bank as of December 31, 2012 accounted for approximately 98% of the consolidated total assets of the Corporation as of the same date. As of December 31, 2012, the Corporation had consolidated total assets of $222.23 billion, total deposits (including deposits in non-U.S. offices) of $164.18 billion, total investment securities of $121.22 billion, total loans and leases, net of unearned income and allowance for loan losses, of $12.29 billion and total shareholders' equity of $20.87 billion.

The Bank's *Consolidated Reports of Condition and Income for A Bank With Domestic and Foreign Offices Only -- FFIEC 031* (the "Call Reports") through December 31, 2012, as submitted through the Federal Financial Institutions Examination Council and provided to the Federal Reserve, are incorporated by reference in this Appendix and shall be deemed to be a part hereof.

In addition, all Call Reports filed by the Bank pursuant to 12 U.S.C. §324 after the date of this Remarketing Circular shall be deemed to be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of any such report.

Additional information, including financial information relating to the Corporation and the Bank, is set forth in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012. The Form 10-K can be found on the Corporation's web site, ***www.statestreet.com***. Such report and all reports filed by the Corporation pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Remarketing Circular are incorporated herein by reference and shall be deemed a part hereof from the date of filing of any such report. The Letter of Credit for the Series 2003B-4 Bonds is an obligation of the Bank and not of the Corporation.

Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Remarketing Circular to the extent that a statement contained herein or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Remarketing Circular.

The Bank hereby undertakes to provide, without charge to each person to whom a copy of this Remarketing Circular has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Remarketing Circular by reference, other than exhibits to such documents. Written requests for such copies should be directed to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

Neither the Bank nor its affiliates make any representation as to the contents of this Remarketing Circular (except as to this Appendix to the extent it relates to the Bank), the suitability of the Bonds for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations.

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**APPENDIX F-5**

**CERTAIN INFORMATION CONCERNING ROYAL BANK OF CANADA**

Royal Bank of Canada (referred to in this section as "Royal Bank") is a Schedule I bank under the *Bank Act* (Canada), which constitutes its charter and governs its operations. Royal Bank's corporate headquarters are located at Royal Bank Plaza, 200 Bay Street, Toronto, Ontario M5J 2J5, Canada, and its head office is located at 1 Place Ville Marie, Montreal, Quebec H3C 3A9, Canada.

Royal Bank and its subsidiaries operate under the master brand name RBC. Royal Bank is Canada's largest bank as measured by assets and market capitalization and is among the largest banks in the world based on market capitalization. Royal Bank is one of North America's leading diversified financial services companies and provides personal and commercial banking, wealth management services, insurance, investor services and wholesale banking on a global basis. Royal Bank and its subsidiaries employ approximately 80,000 full- and part-time employees who serve more than 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 44 other countries.

Royal Bank had, on a consolidated basis, as at July 31, 2013, total assets of C$851.3 billion (approximately US$828.8 billion*), equity attributable to shareholders of C$47.2 billion (approximately US$46.0 billion*) and total deposits of C$546.2 billion (approximately US$531.7 billion*). The foregoing figures were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and have been extracted and derived from, and are qualified by reference to, Royal Bank's unaudited Interim Condensed Consolidated Financial Statements included in Royal Bank's quarterly Report to Shareholders for the fiscal period ended July 31, 2013.

The senior long-term unsecured debt of Royal Bank has been assigned ratings of AA- (stable outlook) by Standard & Poor's Ratings Services, Aa3 (stable outlook) by Moody's Investors Service and AA (stable outlook) by Fitch Ratings. Royal Bank's common shares are listed on the Toronto Stock Exchange, the New York Stock Exchange and the Swiss Exchange under the trading symbol "RY." Its preferred shares are listed on the Toronto Stock Exchange.

Upon written request, and without charge, Royal Bank will provide a copy of its most recent publicly filed Annual Report on Form 40-F, which includes audited Consolidated Financial Statements, to any person to whom this Remarketing Circular is delivered. Requests for such copies should be directed to Investor Relations, Royal Bank of Canada, by writing to 200 Bay Street, 4th Floor, North Tower, Toronto, Ontario M5J 2W7, Canada, or by calling (416) 955-7802, or by visiting rbc.com/investorrelations.

The delivery of this Remarketing Circular does not imply that there has been no change in the affairs of Royal Bank since the date hereof or that the information contained or referred to herein is correct as at any time subsequent to its date.

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* As at July 31, 2013: C$1.00 = US$0.97352.

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# APPENDIX F-6
# CERTAIN INFORMATION CONCERNING THE NORTHERN TRUST COMPANY

The Northern Trust Company (the "Initial Bank"), a wholly owned subsidiary of Northern Trust Corporation (the "Corporation"), was founded in 1889. Headquartered in Chicago, the Initial Bank conducts business through its U.S. operations, its London and Singapore branches, and various U.S. and non-U.S. subsidiaries. The Initial Bank provides a wide array of investment management, asset and fund administration, fiduciary, and banking solutions to corporations, institutions, and affluent individuals. The Initial Bank is an Illinois State-chartered bank and a member of the Federal Deposit Insurance Corporation. It is subject to the regulations of the Illinois Office of Banks and Real Estate, the Federal Deposit Insurance Corporation and the Federal Reserve Board.

As of September 30, 2013, total assets of the Initial Bank were $95.6 billion. Common equity capital of the Initial Bank at September 30, 2013 was $7.0 billion.

The Corporation is a financial holding company under the Gramm-Leach-Bliley Act and was originally organized as a bank holding company in 1971 to hold all the outstanding capital stock of the Initial Bank. The Corporation conducts business through various U.S. and non-U.S. subsidiaries, including the Initial Bank, its principal subsidiary. The Corporation has offices in 18 U.S. states, Washington D.C., and 17 international locations in North America, Europe, the Middle East and the Asia-Pacific region.

**Financial Information**

Total assets of the Corporation averaged $95.2 billion in the third quarter of 2013, up 3% compared to the third quarter of 2012. As of September 30, 2013, assets totaled $96.0 billion. Total stockholders' equity at September 30, 2013 was $7.8 billion as compared to $7.5 billion at September 30, 2012.

The Corporation maintained a liquid balance sheet with securities and money market assets averaging 60% of total assets during the third quarter of 2013. Long-term debt payable of the Corporation, including Trust Preferred Securities, but excluding senior notes, was $1.3 billion at September 30, 2013. The Corporation's reserve for credit losses assigned to loans and leases at September 30, 2013 was $287.2 million representing 0.99% the balance of loans and leases.

The Corporation files reports, forms and other information with the Securities and Exchange Commission (the "Commission") in accordance with the requirements of the Securities Exchange Act of 1934, as amended. Additional information, including financial information relating to the Initial Bank, is set forth in the Annual Report on Form 10-K for the year ended December 31, 2012. The Initial Bank will provide without charge to each person to whom this Remarketing Circular is delivered, upon the written request of such person, a copy of the most recent Annual Report to Shareholders of the Corporation, a copy of the Annual Report on Form 10-K, a copy of the most recent Quarterly Report on Form 10-Q and a copy of any Current Report on Form 8-K filed since the date of such Annual Report on Form 10-K. Written requests should be directed to: Northern Trust Corporation, 50 South LaSalle Street, Chicago, Illinois 60603, Attention: Secretary.

SEAL OF THE STATE OF ILLINOIS
NATIONAL UNION
STATE SOVEREIGNTY
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AUG. 26TH 1818

# APPENDIX G

## SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE OF TRUST

*The following is a summary of certain provisions of the Indenture. Such summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to all of the terms and provisions of the Indenture, copies of which are available for inspection during the initial offering period from the principal offices of the Underwriters and, after the initial delivery of the Bonds, at the principal corporate trust office of the Trustee in Chicago, Illinois. A list of additional defined terms appears at the end of this summary.*

### PAYMENT OF THE BONDS

Pursuant to the Indenture, the State covenants that it will duly and punctually pay or cause to be paid the principal of, premium, if any, and interest on the Bonds at the place, on the dates and in the manner provided in the Indenture. The Bonds are a general obligation of the State, for which the full faith and credit of the State are irrevocably pledged.

### BOND FUND

The Indenture provides for the creation by the Trustee of a Bond Fund which shall be used to pay the principal of and interest on the Bonds. There are created within the Bond Fund a Series 2003B Account for each Subseries of the Bonds, designated as the "Series 2003B-1 Account", "Series 2003B-2 Account", "Series 2003B-3 Account", "Series 2003B-4 Account", "Series 2003B-5 Account", and "Series 2003B-6 Account". Separate Bank Bond Special Deposit Accounts for each Subseries of Bonds, designated as "Bank Bond Special Deposit Account, Series 2003B-1", "Bank Bond Special Deposit Account, Series 2003B-2", "Bank Bond Special Deposit Account, Series 2003B-3", "Bank Bond Special Deposit Account, Series 2003B-4", "Bank Bond Special Deposit Account, Series 2003B-5", and "Bank Bond Special Deposit Account, Series 2003B-6" are created within the Bond Fund (each, a "Special Account")."

There will be deposited into each Series 2003B Account of the Bond Fund when received: (a) all funds from the State; provided, that such funds shall be deposited proportionally, based on the aggregate principal amount of each Subseries of Bonds, amongst the Series 2003B Accounts; (b) all moneys required to be so deposited in connection with any redemption the applicable Subseries of the Bonds; (c) any amounts directed to be transferred into a Series 2003B Account pursuant to any provision of the Indenture or the Tax Agreement; and (d) all other moneys when received by the Trustee which are required to be deposited into a Series 2003B Account or which are accompanied by directions that such moneys are to be paid into a Series 2003B Account. There will be deposited into the applicable Special Deposit Account all moneys required to be deposited into such Special Account of the Bond Fund as a condition or covenant relating to the existence (by purchase or otherwise, as provided in the applicable Liquidity Facility) of Bank Bonds. Each Special Account and moneys therein are held preferentially for the payment of the applicable Bank Bonds, first and prior to payment of other Bonds.

On October 31, 2003, and thereafter on or before July 1 of each year, the State shall deposit the "Initial Interest Requirement" (as defined below) into the applicable Series 2003B Account from funds on hand and lawfully made available therefor. On or before the first day of each month, the

State shall also deposit the applicable "Monthly Interest Requirement" (as defined below) into the applicable Series 2003B Account from funds on hand and lawfully available therefor. In addition, on or before the first day of each month, the State shall deposit the applicable "Principal Requirement" (as defined below) into the applicable Series 2003B Account from funds on hand and lawfully available therefor.

"*Initial Interest Requirement*" shall be calculated separately for each Subseries of Bonds and shall be equal to the amount of interest on the applicable outstanding Bonds for the next calendar month at a rate of 9% per annum (except that, for outstanding Bonds in an Adjustable Rate Mode, the amount of interest shall be computed at the Adjustable Rate). At anytime when the Maximum Rate on the applicable Bonds is greater than 9% per annum, the rate to be used to compute the Initial Interest Requirement shall be the Maximum Rate. The "*Monthly Interest Requirement*," shall be calculated separately for each Subseries of Bonds. While the outstanding Bonds are not in the Adjustable Rate Mode, "Monthly Interest Requirement," for any month, shall be equal to the amount of interest to accrue on the applicable outstanding Bonds during such month at a rate determined by the State and directed to the Trustee, which shall, in no event, be less than 3.89% (the "swap rate") plus 0.08%, unless the Swap Agreement has been terminated or the swap provider is in default, in which case the Monthly Interest Requirement for such calendar month shall be equal to the amount of interest to accrue on the applicable Bonds for such calendar month at the Maximum Rate. While the outstanding Bonds are in the Adjustable Rate Mode, "Monthly Interest Requirement"(i) shall be equal to the amount of 1/6 of the interest due on such outstanding Bonds on the next Interest Payment Date computed at the Adjustable Rate and (ii) need not be deposited in the months in which the Initial Interest Requirement is deposited. The "*Principal Requirement*" shall be calculated separately for each Subseries of Bonds and shall be an amount, if any, equal to 1/12 of the principal of the Bonds scheduled to mature or be subject to mandatory redemption during the next succeeding 12 months.

On the third Business Day before July 1 of each year, the Trustee shall transfer to the State any amount in any Series 2003B Account in excess of two-thirds (2/3) of the amount of the principal (being eight months worth of principal deposits) of the applicable outstanding Bonds scheduled to mature or subject to mandatory redemption during the next succeeding 12 months.

By the fifth Business Day of the month, the Trustee shall report to the State the balance in each Series 2003B Account and Program Expense Fund.

Subject to the provisions set forth above, (1) on or before the State Payment Time on the Business Day immediately preceding each Interest Payment Date; (2) on the Business Day of or preceding any optional or mandatory tender for which the State may need to provide funds for accrued interest; (3) on the Business Day preceding any Sale Date for remarketing of Bank Bonds upon which a Differential Interest Amount may be due; and (4) on or before the State Payment Time on the Business Day immediately preceding the Maturity of any Bonds, the State shall pay to the Trustee and the Trustee shall deposit into the respective account of the Bond Fund from amounts received from or on behalf of the State, an amount (a) which shall be sufficient for the purpose of paying the principal, premium, if any, and interest coming due and payable on the applicable Subseries of Bonds on such Interest Payment Date or at Maturity and (b) which shall be sufficient to pay such accrued interest on a tender date or the Differential Interest Amount on a Sale Date, respectively; provided, however, that no such deposits need be made to the extent that there are moneys on deposit in the Bond Fund that are available to pay the principal, premium, if any, accrued interest, Differential

Interest Amount, and interest on such Bonds, all as provided under the Indenture. "State Payment Time" means such time as stated in Exhibit B to the Indenture, incorporated by reference, as substituted, modified, or amended from time to time, and entitled "Table of Changeable Provisions."

There is created within the Bond Fund a "Swap Payment Account". On or before the State Payment Time on the Business Day of or preceding the day a Swap Payment is due, the State shall pay to the Trustee and the Trustee shall deposit into the Swap Payment Account an amount which is sufficient to pay the Swap Payment and the Trustee shall make the Swap Payment to the Swap Provider in accordance with the Swap Agreement and Indenture. Further, any amounts paid to the State from a Swap Provider pursuant to a Swap Agreement shall be paid to the Trustee and deposited into the Series 2003B Accounts; provided, that such funds shall be deposited proportionally amongst the Series 2003B Accounts, based on the aggregate principal amount of each Subseries of Bonds, and be used to pay principal of and interest on such Series 2003B Bonds when due.

**PROGRAM EXPENSE FUND**

The Indenture provides for the creation with the Trustee of a Program Expense Fund. The State may deposit amounts with the Trustee to the Program Expense Fund from time to time and at any time while the Bonds are outstanding. Initially, the State shall make monthly deposits equaling 0.216666% of the outstanding principal amount of the Bonds. Such rate can be changed from time to time by the State without the consent of or notice to any other party. Moneys on deposit in the Program Expense Fund shall be used to pay the Program Expenses and administrative expenses and costs of the State incurred by it in the administration of the Bonds. The Trustee shall disburse moneys for Program Expenses upon written direction of the State. All investment income derived from the Program Expense Fund shall be retained in the Program Expense Fund.

**EVENTS OF DEFAULT UNDER THE INDENTURE**

Each of the following events occur is defined as and declared to constitute an Event of Default under the Indenture:

(a) a default in the payment when due of interest on any Bond;

(b) a default in the payment of principal of, or premium, if any, on any Bond when due, whether at maturity, redemption, or otherwise;

(c) a default in the payment when due of the purchase price of any Bond required to be purchased subject to optional or mandatory tender pursuant to the Indenture;

(d) the State fails to perform any of its agreements pursuant to the Indenture or the Bonds (except a failure that results in an Event of Default under clause (a), (b) or (c) above), the performance of which is material to the Bondholders, and which failure continues after the giving of the notice of default and the expiration of the grace period specified in the Indenture;

(e) the State shall (1) commence a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) make an assignment for the benefit of its creditors, (3) consent to the appointment of a receiver of itself or of the whole or any substantial part of its property, or (4) be adjudicated a bankrupt or any petition for relief shall be filed in respect of an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law and such order continue in effect for a period of 60 days without stay or vacation;

(f) a court of competent jurisdiction shall enter an order, judgment or decree appointing a receiver of the State, or of the whole or any substantial part of its property, or approving a petition seeking reorganization of the State under the Federal bankruptcy laws or any other applicable Federal or state law or statute and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof; and

(g) under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the State or of the whole or any substantial part of its property, and such custody or control shall not be terminated or stayed within 60 days from the date of assumption of such custody or control.

No default under clause (d) above shall constitute an Event of Default until actual notice of such default by registered or certified mail shall be given to the State by the Trustee, the applicable Liquidity Provider or by the Bondholders of not less than 25% in aggregate principal amount of all Bonds Outstanding (without regard for Bondholders' aggregate principal amount held within a particular Subseries of Bonds) and the State shall have had 60 days after receipt of such notice at its option to correct said default or to cause said default to be corrected and shall not have corrected said default or caused said default to be corrected within the applicable period; *provided*, *however*, that if said default be such that it cannot be corrected within the applicable period but can be corrected within a reasonable period of time agreed to by the Trustee, it shall not constitute an Event of Default if corrective action is instituted by the State within the applicable period and diligently pursued until the default is corrected.

**REMEDIES**

Upon the occurrence of any Event of Default, the Trustee may pursue any available remedy by suit at law or in equity to enforce the payment of the principal or purchase price of, premium, if any, and interest on the Bonds then Outstanding, and the performance by the State of its obligations under the Indenture, including without limitation, the following:

(a) by mandamus, or other suit, action, or proceeding at law or in equity, enforce all rights of the Bondholders, and require the State to carry out its obligations under the Indenture and the Act;

(b) bring suit upon the Bonds;

(c) by action, suit, or proceeding at law or in equity require the State to account for any moneys received by the State as if it were the trustee of an express trust for the Bondholders; and

(d) by action, suit, or proceeding at law or in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

Subject to the prior rights of the Bondholders, the State shall be entitled to reimbursement for any of its expenses in connection with such proceeding from any available funds in the Trust Estate.

If an event of default has occurred, and if requested to do so by the owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding (without regard for Bondholders' aggregate principal amount held within a particular Subseries of Bonds) or, if at such time all Bonds then outstanding are secured by a Liquidity Facility, by the applicable Liquidity Provider, and if indemnified as provided in the Indenture, the Trustee shall be obligated to exercise one or more of the rights and powers conferred unto it as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bondholders. No remedy conferred upon or reserved to the Trustee, a Liquidity Provider or the Bondholders by the terms of the Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee, the applicable Liquidity Provider or the Bondholders or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient. No waiver of any default or Event of Default, whether by the Trustee or the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any right or remedy consequent thereon.

No Bondholder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy under the Indenture, unless:

(a) an Event of Default has occurred of which the Trustee has been notified as provided in the Indenture or of which the Trustee is deemed to have notice as provided in the Indenture;

(b) the Bondholders of not less than 25% in aggregate principal amount of the Bonds then Outstanding (without regard for Bondholders' aggregate principal amount held within a particular Subseries of Bonds) shall have made written request to the Trustee and have offered it reasonable opportunity either to proceed to exercise the powers granted by the Indenture or to institute such action, suit or proceeding in the name or names of such owners, and shall have offered to the Trustee indemnity as provided in the Indenture; and

(c) the Trustee thereafter fails or refuses to exercise the powers so granted, or to institute such action, suit or proceeding in its own name, within 60 days.

Such notification, request and offer of indemnity are declared in every case, at the option of the Trustee, conditions precedent to the execution of the powers and trusts of the Indenture, and to any action or cause of action for the enforcement of the Indenture or for the appointment of a receiver or for any other remedy under the Indenture.

No one or more Bondholders of the Bonds shall have any right to affect, disturb or prejudice the lien of the Indenture by such Bondholder's action, and all proceedings at law or in equity shall be instituted, had and maintained for the equal and ratable benefit of the Bondholders of all Bonds then Outstanding. Nothing in the Indenture, however, shall affect or impair the right of any Bondholder to enforce the payment of the purchase price of a properly tendered Bond when due, or the principal of, premium, if any, and interest on any such Bond at and after the Maturity thereof, or the obligation of the State to pay the purchase price, principal of, premium, if any, and interest on any Bond at the time and place, from the source, and in the manner expressed in such Bond. Nothing in the Indenture shall be construed as (i) permitting or affording any Bondholder a right or cause of action against the Trustee or in respect of the Bonds where a default has been waived or cured as provided in the Indenture or (ii) limiting the rights of a Liquidity Provider.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence of an Event of Default, the Bondholders of a majority in aggregate principal amount of the Bonds then Outstanding (without regard for Bondholders' aggregate principal amount held within a particular Subseries of Bonds) shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or for any other proceedings, other than for the payment of the principal or purchase price of, premium, if any, and interest on the Bonds, or any part thereof; *provided*, *however*, that direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

The Trustee may in its discretion waive any Event of Default under the Indenture and its consequences, and shall do so upon the written request of the Bondholders of a majority in aggregate principal amount of the Bonds then Outstanding (without regard for Bondholders' aggregate principal amount held within a particular Subseries of Bonds); *provided*, *however*, that the Trustee may not waive an Event of Default described in clauses (a) or (b) of "Events of Default Under the Indenture" above without the written consent of the Bondholders of all Bonds then Outstanding and, if at such time all Bonds then Outstanding are secured by a Liquidity Facility, the applicable Liquidity Provider.

Subject to the provisions of the Tax Agreement, all moneys relating to the Bonds received by the Trustee pursuant to any right given or action taken under the Indenture, shall be deposited into the applicable account within the Bond Fund (after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees and expenses, liabilities, and advances of the Trustee and the Tender Agent, it being understood that payment of such costs and expenses shall not be made from the proceeds of any demand for payment made under a Liquidity Facility or any moneys already held for the payment of principal of, premium, if any, interest on and/or purchase price for Bonds that were not presented for payment when due in accordance with the terms of this Indenture (including remarketing proceeds)) and all moneys in the Bond Fund shall be applied as follows:

(1) First, to the payment of all reasonable costs and expenses of collection, fees, and other amounts due to the Trustee under the Indenture; and thereafter,

(2) All such moneys shall be applied as follows:

(A) FIRST, to the payment to the persons entitled thereto of all installments of interest on the applicable Outstanding Bonds then due, in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference;

(B) SECOND, to the payment to the persons entitled thereto of the unpaid principal of any of the applicable Outstanding Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest upon such Outstanding Bonds from the respective dates upon which they became due, and, if the amount available shall not be sufficient to pay in full Outstanding Bonds due on any particular date, together with such interest, then to the payment first of such interest, ratably according to the amount of such interest due on such date, and then to the payment of such principal ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference;

(C) THIRD, to the payment of the redemption premium, if any, on and the principal of any Outstanding Bonds called for redemption pursuant to the provisions of the Indenture.

**SUPPLEMENTAL INDENTURE; AMENDMENTS TO THE BOND SALE ORDER**

The State and the Trustee may, subject to the terms of the Indenture and any Liquidity Facility, without consent of or notice to any Bondholders of the Bonds, enter into such Supplemental Indentures as shall not be inconsistent with the terms and provisions of the Indenture for any one or more of the following purposes: (a) to cure any ambiguity, inconsistency or formal defect or omission in the Indenture; (b) to grant to the Trustee, for the benefit of the Bondholders of the Bonds, any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders or Trustee; (c) to subject to the Indenture additional revenues, properties or collateral; (d) to modify the Indenture to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar Federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States; (e) to add other covenants and agreements of the State for the protection of the Bondholders or to surrender or limit the State's rights, power or authority; (f) to elaborate on any provisions necessary to exercise any conversion options; (g) to provide for the substitution of an Alternate Liquidity Facility; (h) to provide that all or a portion of the Bonds may be secured by a Credit Facility or other additional security not otherwise provided for in the Indenture; (i) to modify, amend or supplement the Indenture in such manner as the Trustee and the Remarketing Agent deem necessary in order to comply with any statute, regulation, judicial decision or other law relating to secondary market disclosure requirements with respect to obligations of the type that includes the Bonds; (j) to provide for the appointment of a successor securities depository; (k) to provide for the availability of certificated Bonds; (1) to modify, alter, amend, supplement or restate the Indenture in any and all respects necessary, desirable or appropriate in connection with the delivery to the Trustee of a letter of credit, liquidity facility, standby bond purchase agreement, bond insurance policy or other security arrangement obtained or provided by the State; and (m) to make any change that does not, in the opinion of the Trustee, have a material adverse effect upon the interests of the Bondholders.

The State and the Trustee may, without the consent of, but with due notice to, any Bondholders, amend or supplement the Indenture prospectively in any way they may agree if the effective date of such amendment coincides with a tender date for all Outstanding Bonds; *provided* that any such amendment shall not be in derogation of any continuing rights of prior Bondholders, such as the right of the Bondholders to Tax-exempt status.

Subject to the terms and provisions contained in the Indenture and the provisions relating thereto in any Liquidity Facility, the Bondholders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to approve the execution by the State and the Trustee of such indenture or indentures supplemental hereto as shall be deemed necessary and desirable by the State for the purposes of modifying, altering, amending, adding to, or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture. If at any time the State shall request the Trustee to enter into any such supplemental indenture for any of the purposes of this paragraph, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed by certified mail to the applicable Liquidity Providers and the Bondholders. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Bondholders. If, within 60 days, or such longer period as shall be prescribed by the State, following the mailing of such notice, the Bondholders of the requisite percentage in aggregate principal amount of the Bonds Outstanding at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as provided under the Indenture, no Bondholder shall have any right to object to any of the terms and provisions contained therein or the operation thereof or in any manner to question the propriety of the execution thereof or to enjoin or restrain the Trustee or the State (subject to the Indenture) from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted and provided in the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith.

The consent of the Bondholders of all of the Bonds then Outstanding is necessary to effect (a) an extension of the maturity of the principal of, or the time for payment of any redemption premium or interest on, any Bond, or a reduction in the principal amount of any Bond, or the rate of interest or redemption premium thereon, or a reduction in the amount of, or extension of the time of any payment required by, any Bond, or a material modification of the Bondholders' optional tender rights; (b) a privilege or priority of any Bond over any other Bond (except as provided in the Indenture); (c) a reduction in the aggregate principal amount of the Bonds required for consent to such a supplemental indenture; (d) the deprivation of the Bondholder of any Bond of the lien created by the Indenture; (e) except as permitted by the Indenture, an alteration of the obligations of a Liquidity Provider under a Liquidity Facility; or (f) the amendment of the provisions of the Indenture concerning such consent. No amendment or supplement to the Indenture may be entered into without the Trustee and the State first receiving a Favorable Bond Counsel Opinion.

The Trustee shall inform the Tender Agent, the Remarketing Agent and applicable Liquidity Provider of any amendment or supplement to the Indenture affecting the respective rights and obligations of the Tender Agent, the Remarketing Agent and the Credit Provider, and such amendment or supplement shall not become effective unless and until the Tender Agent, the Remarketing Agent or the applicable Liquidity Provider, as the case may be, shall have consented in writing to the provisions thereof which affect its rights and obligations. Neither the State nor the Trustee shall consent to or waive noncompliance by any Person with respect to any term of the Indenture that affects the rights and obligations of any Liquidity Provider without the written consent of the applicable Liquidity Provider.

The Bond Sale Order may not be amended or supplemented except as follows: (a) to authorize or give effect to the amendments or supplements to the Indenture as permitted by the Indenture; (b) to take any of the action with respect to the Bond Sale Order as may be permitted in the Indenture but only upon the same conditions as may relate to such action with respect to the Indenture; and (c) Section 14 Regarding Continuing Disclosure (which is subject to amendment by its own terms). If notice is not otherwise required by reference to the conditions hereinabove stated, the State will provide to the Trustee not less than 14 days' written notice of an intent to amend the Bond Sale Order and the text of such amendment and notice not less than 7 days after such amendment is actually adopted and certified copy of the amendatory ordinance.

**AMENDMENTS TO LIQUIDITY FACILITY**

Liquidity Facilities may not be modified other than to (a) correct any formal defects in such Liquidity Facility, (b) effect transfers thereof, (c) effect extensions thereof, (d) effect an increase in the stated amount of such Liquidity Facility, (e) effect reductions and reinstatements thereof, all in accordance with the terms of such Liquidity Facility as then in effect, (f) change the representations and warranties made therein by the State, (g) change the rate of interest payable by the State on advances made by the Liquidity Provider thereunder and any other compensation or fees payable thereunder to other commercially reasonable terms or (h) make any other change consistent with affecting the provisions of clauses (a) through (g) of this paragraph hereof, unless there is delivered to the State and the Trustee a Favorable Bond Counsel Opinion. In addition, no Liquidity Facility may be amended to reduce the amount that may be demanded for payment under such Liquidity Facility to be less than the Required Amount of such Liquidity Facility or to change the terms and conditions pursuant to which the applicable Liquidity Provider will honor a demand made by the Trustee in accordance with the terms of the Indenture for payment under such Liquidity Facility without (i) the consent of the State and 100% of the Bondholders of the Bonds supported by such Liquidity Facility and (ii) receipt by the Trustee of written notice from the Rating Agencies to the effect that after giving effect to such amendment the rating borne by the Bonds will be no lower than the rating borne by the Bonds immediately prior to any such amendment.

**DISCHARGE OF INDENTURE**

If the State shall pay or cause to be paid or there shall be otherwise paid or provision shall be made for the payment of, the principal, premium, if any, and interest due or to become due on Bonds at the times and in the manner stipulated in the Indenture; and if the State shall not then be in default under any of the other covenants and promises in such Bonds and the Indenture to be kept, performed, and observed by it or on its part; and if the State shall pay or cause to be paid to the Trustee all sums of money due or to become due according to the provisions of the Indenture or of the Bonds; then, except for the rights of the Trustee under the Indenture, then the interests in the Trust Estate and rights thereby granted by the Indenture shall cease, terminate, and be void; and thereupon, the Trustee shall take such action, at the request of the State, as may be necessary to evidence the cancellation and discharge of the lien of the Indenture.

While in an Adjustable Rate Mode, a Series 2003B Bond shall be deemed to be paid for all purposes of the Indenture when (1) payment of the principal of and the applicable redemption premium, if any, on such Bond plus interest thereon to Maturity shall have been provided to the Trustee by irrevocably depositing with the State and the Trustee, in trust, and the Trustee shall have irrevocably set aside exclusively for such payment, any combination of (a) funds sufficient to make such payment, and/or (b) Government Obligations (except for those obligations described in clause (3) of the definition thereof as such is set forth at the end of this Appendix F) not subject to redemption or prepayment and maturing as to principal and interest in such amounts and at such times as will, in the opinion of an independent certified public accountant delivered to the State and the Trustee, provide sufficient moneys, without reinvestment of any matured amounts, to make such payment without reinvestment; (2) the Trustee shall have been given irrevocable written instructions to call all outstanding Bonds for redemption on a date certain, if such Bonds are to be called for redemption prior to Stated Maturity; (3) the Trustee shall have received a Favorable Bond Counsel Opinion as to the effect of such deposit (and the payment of the Bonds therefrom); and (4) all necessary and proper fees, compensation, and expenses of the Trustee and the Tender Agent pertaining to the Bonds shall have been paid or the payment thereof provided for to the satisfaction of the Trustee.

A Bond shall be deemed to be paid for all purposes of the Indenture when (1) payment of (a) the principal and the applicable redemption premium, if any, on such Bond, plus interest thereon to Maturity and (b) the purchase price for such Bond if tendered for purchase prior to Maturity shall have been provided to the Trustee by irrevocably depositing with the Trustee, in trust, and the Trustee shall have irrevocably set aside exclusively for such payments, funds in any amount sufficient to make such payments; (2) the Trustee shall have been given irrevocable written instructions to call all outstanding Bonds for redemption on a date certain, if such Bonds are to be called for redemption prior to Stated Maturity; (3) the Trustee shall have received a Favorable Bond Counsel Opinion as to the effect of such deposit (and the payment of the Bonds therefrom); (4) the Trustee receives notice from the Rating Agencies, promptly confirmed in writing to the Trustee, stating that the rating on the Bonds will not be suspended or withdrawn and stating what rating the Bonds will bear after payment is provided therefor in accordance with this paragraph and that such rating is not lower than the rating borne by the Bonds immediately prior to any such provision for payment; and (5) all necessary and proper fees, compensation, and expenses of the Trustee and the Tender Agent pertaining to the Bonds shall have been paid or the payment thereof provided for to the satisfaction of the Trustee. If a Bond for which funds have been so deposited with the Trustee is tendered for purchase prior to its Maturity, the purchase price for such Bond shall be paid with such funds; upon payment of such purchase price such Bond shall not be remarketed but shall be cancelled by the Trustee. Funds deposited with the Trustee as described in clause (1) above of this paragraph shall either not be invested or shall be invested in Government Obligations that mature in a principal amount not less than their original purchase price and have maturity dates not later than the dates on which such moneys will be needed to pay the redemption price or purchase price of the Bonds, and in no event later than seven days after their date of purchase.

If provision for payment of a Bond is being made as described above and the interest rate on such Bond may change or be reset in accordance with the Indenture during the period between the date that funds and/or Government Obligations to the extent set forth in the Indenture are deposited with the Trustee and the date that such Bonds are purchased, redeemed or otherwise paid, then the amount of such funds and/or such Government Obligations (taking into account the proceeds thereof) to be deposited with the Trustee shall be sufficient to pay the principal of, premium, if any, and interest on such Bond when to Maturity and purchase price for such Bond if tendered for purchase prior to its Maturity assuming that such Bond bore interest at the Maximum Rate during such period. If provision is made for the payment of a Bond as described in the preceding sentence, the maximum interest rate that such Bond may bear during the period between the date funds and/or such Government Obligations are deposited with the Trustee and the date that such Bond is purchased, redeemed or otherwise paid shall be the Maximum Rate. After payment of such Bond, if, as a result of any such interest rate assumption, excess funds remain on deposit with the Trustee, subject to compliance with the provisions of the Code, the Tax Agreement and the Indenture, such funds shall be returned to the State.

THE TRUSTEE

The Trustee accepts the trusts imposed upon it by the Indenture and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are expressly set forth in the Indenture and to use the same degree of care and skill in their exercise as an ordinarily prudent trustee under a corporate indenture would exercise or use under the circumstances, and no implied covenants or obligations shall be read into the Indenture against the Trustee. If any Event of Default under the Indenture shall have occurred and be continuing, the Trustee shall exercise such of the rights and powers vested in it by the Indenture and shall use the same degree of care as a prudent person would exercise or use in the circumstances in the conduct of such prudent person's own affairs.

(b) The Trustee may execute any of the trusts under the Indenture, exercise any powers thereunder and perform any of its duties under the Indenture by or through attorneys, agents or receivers, but shall not be answerable for the conduct of the same if appointed in accordance with the standard specified in clause (a) above. None of the Remarketing Agent, a Liquidity Provider or a Credit Provider shall be deemed an agent of the Trustee for any purpose, and the Trustee shall not be responsible for the compliance by any of them with their respective obligations under the Indenture or in connection with the transactions contemplated therein. The Trustee shall be entitled to the advice of counsel (which may be an employee or affiliate of the Trustee) concerning all matters of trust hereof and its duties under the Indenture, and in all cases may pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trust hereof. The Trustee may act upon the opinion or advice of any attorneys approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action exercised in good faith in reliance upon such opinion or advice.

(c) The Trustee shall not be accountable for the use of any Bonds authenticated or delivered under the Indenture. The Trustee may in good faith buy, sell, own, and hold any of the Bonds (or beneficial interests therein) in its own name and may join in any action which any Bondholder may be entitled to take with like effect as if the Trustee was not a party to this Indenture. The Trustee may also engage in or be interested in any financial or other transaction with the State, any Liquidity Provider, the Tender Agent, or the Remarketing Agent; *provided*, *however*, that if the Trustee determines that any such relationship is in conflict with its duties under the Indenture, it shall eliminate the conflict or resign as Trustee. To the extent permitted by law, the Trustee may also purchase Bonds (or beneficial interests therein) with like effect as if it were not the Trustee.

(d) The right of the Trustee to perform any discretionary act enumerated in the Indenture shall not be construed as a duty. The Trustee shall not be answerable for other than its negligence or willful misconduct in the performance of its powers and duties under the Indenture.

(e) The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Indenture or in any other document or instrument executed in connection with the execution and delivery of the Bonds, except (1) an Event of Default described under clauses (a), (b) and (c) under the subheading "Events of Default under the Indenture" above, (2) failure by the State to cause to be made any of the payments to the Trustee required to be made by under the Indenture, or (3) any other Event of Default of which the Trustee has actual knowledge; unless the Trustee shall be specifically notified in writing of such default or Event of Default by the State, the Remarketing Agent, the Tender Agent, the applicable Liquidity Provider, or the Bondholders of at least 25% in aggregate principal amount of the Bonds then Outstanding. All notices or other instruments required by the Indenture to be delivered to the Trustee shall be delivered at the principal corporate trust office of the Trustee; and, in the absence of such notice so delivered, the Trustee may conclusively assume there is no default except as aforesaid.

Except during the pendency of an Event of Default, the Trustee may resign by written notice and thereby notify the State, the Tender Agent, the Remarketing Agent, all applicable Liquidity Providers and the Bondholders of the Bonds then Outstanding and shall so resign whenever it ceases to be qualified to act as Trustee under the Indenture.

Provided that no Event of Default shall have occurred and be continuing, the State may remove the Trustee and appoint a successor Trustee at any time by an instrument or concurrent instruments in writing delivered to the Trustee. The Bondholders of a majority in aggregate principal amount of the Bonds then outstanding may remove the Trustee by written notice to the removed Trustee, the State, the applicable Liquidity Provider, the Remarketing Agent and the Tender Agent.

The State may appoint a temporary successor Trustee until a permanent successor is appointed by the Bondholders of a majority in aggregate principal amount of the Bonds then outstanding.

**CERTAIN CHANGEABLE PROVISIONS**

Terms and provisions relating to each Subseries of Bonds shown on the "Table of Changeable Provisions," may be revised, modified, or amended from time to time (such revision, modification, or amendment to be referred to as a "*Term Change*"). Different terms and provisions may be provided for each Subseries of Bonds. Any Term Change shall be subject to the conditions precedent as follows: (a) any of the State, Market Agent, the applicable Liquidity Provider, Remarketing Agent, or Trustee (such Persons being the "*Term Change Parties*") may propose a Term Change in a notice

("*Term Change Proposal Notice*") to the other Term Change Parties, which Term Change Proposal Notice shall explain the proposed Term Change, give a proposed effective date, and give reasons why same is commercially reasonable and desirable; (b) each Term Change Proposal Notice shall be accompanied by the form of Favorable Bond Counsel Opinion which Bond Counsel shall render upon the effective date of the Term Change; the Term Change shall not occur until such opinion is, in fact, rendered; (c) the Term Change Proposal Notice shall be given not less than 14 days prior to the proposed effective date; (d) all Term Changes shall be subject to the consent of all Term Change Parties not proposing the Term Change, which consent must be obtained prior to the proposed effective date, except for changes in the Weekly Start Day and the Weekly End Day proposed by the Remarketing Agent. This Term Change (with no consent required) shall become effective on its proposed effective date; (e) the Rating Agencies shall be notified of any Term Change at the time the Term Change Proposal Notice is given to the Term Change Parties. No Term Change shall be effective until the Term Change Parties have received written evidence from the Rating Agencies to the effect that the Rating Agencies have reviewed the Term Change and stating what rating the Bonds will bear after the effective date of the Term Change and whether the new rating constitutes a reduction of the then current rating on the Bonds; (f) upon a Term Change, the Trustee shall provide a dated, restated Table of Changeable Provisions to all Term Change Parties; and (g) the Trustee shall give notice in writing of any Term Change to all affected Bondholders promptly upon obtaining knowledge of the actual Term Change effective date.

TABLE OF CHANGEABLE PROVISIONS

| TERM | MEANS |
|---|---|
| Weekly End Day | Tuesday |
| Weekly Start Day | Wednesday |
| Time of Advice of Purchasers | 3:00 p.m. |
| Default Time | 10:30 A.M. |
| Liquidity Call Time | 11:30 A.M. |
| Final Payment Review Time | 11:00 A.M. |
| Purchase Bond Delivery Time | 4:00 p.m. |
| State Payment Time | 1:45 p.m. |
| Liquidity Call Payment Time | 2:00 p.m. |

## APPENDIX H

## GLOSSARY OF TERMS

"*2013 Bond Counsel*" means Mayer Brown LLP.

"*Act*" means the General Obligation Bond Act, as amended and supplemented.

"*Adjustable Rate*" means the interest rate per annum from time to time borne by the Bonds when in the Adjustable Rate Mode, as established in accordance with the provisions of the Indenture and as described in this Remarketing Circular in "THE Bonds — Interest Rate."

"*Adjustable Rate Conversion Date*" means each Interest Payment Date on which Bonds, upon having been converted to the Adjustable Rate Mode from another Mode, shall first begin to bear interest at an Adjustable Rate in accordance with the terms hereof, and each subsequent Adjustable Rate Reset Date.

"*Adjustable Rate Interest Payment Date*" means with respect to an Adjustable Rate Period, the first day of the sixth calendar month following the Adjustable Rate Conversion Date and the first day of each successive sixth calendar month, if any, of such Adjustable Rate Period; *provided*, *however*, the final Adjustable Rate Interest Payment Date with respect to any such Adjustable Rate Period shall be the first Business Day of the calendar month immediately following the expiration of such Adjustable Rate Period or the Stated Maturity (if such Adjustable Rate Period extends to the Stated Maturity).

"*Adjustable Rate Mode*" means the Mode in which the Bonds bear interest at an Adjustable Rate.

"*Adjustable Rate Period*" means any period of not less than one year in duration, commencing on an Adjustable Rate Conversion Date or an Adjustable Rate Reset Date, as applicable, and ending on the earlier to occur of the Stated Maturity of Bonds or the day preceding the subsequent Conversion Date or Adjustable Rate Reset Date, as appropriate.

"*Adjustable Rate Reset Date*" means an Adjustable Rate Interest Payment Date on which Bonds begin to bear interest at a new Adjustable Rate in accordance with the terms hereof.

"*Auction Interest Period*" means the period commencing on the Auction Rate Conversion Date through and including and ending on the earlier to occur of the Stated Maturity of Bonds or the day preceding the subsequent Conversion Date.

"*Auction Rate*" means the rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Exhibit C of the Indenture; *provided, however,* in no event may the Auction Rate exceed the Maximum Auction Rate (as such term is defined in the Indenture).

"*Auction Rate Conversion Date*" means the Interest Payment Date on which Bonds, having been converted to the Auction Rate Mode from another Mode, shall first begin to bear interest at an Auction Rate in accordance with the terms hereof.

"*Auction Rate Mode*" means the Mode in which the Bonds bear interest at an Auction Rate.

"*Authorized Denomination*" means (1) when interest is payable at an Adjustable Rate, $5,000 and integral multiples of $5,000; (2) when interest is payable at a Weekly Rate or a Monthly Rate, $100,000 or any integral multiple of $5,000 in excess of $100,000; (3) when interest is payable at an Auction Rate, $50,000 and integral multiples of $50,000; and (4) with respect to Bank Bonds, $1 and integral multiples of $1.

"*Bank Bonds*" means Bonds purchased with moneys provided to the Trustee, pursuant to a Liquidity Facility, but excluding Bonds no longer to be considered Bank Bonds pursuant to such Liquidity Facility.

"*Bank Bondholder*" means a Bondholder or Beneficial Owner of Bank Bonds, which shall only be a Liquidity Provider (or successors in interest) and any person to whom the Liquidity Provider is expressly given the right to sell or convey Bank Bonds under the terms of the Liquidity Facility.

"*Bank Rate*" means the rate of interest to be borne on Bank Bonds as provided in the Liquidity Facility, but in no event to exceed the Maximum Rate.

"*Beneficial Owner*" means the person in whose name a Bond is recorded as beneficial owner of such Bond by a Participant or an Indirect Participant on the records of such Securities Depository, Participant, or Indirect Participant, as the case may be, or such person's subrogee.

"*BMA Municipal Swap Index*" means, with respect to any Bond in the Weekly Rate Mode for which a rate is not set pursuant to the provisions of the Indenture and described herein under "THE OFFERING—DESCRIPTION OF THE Bonds—Interest Rate," the rate per annum determined on the basis of an index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by the Indexing Agent which meet specific criteria established by the Bond Market Association. In the event the Indexing Agent no longer publishes an index satisfying the requirements of the preceding sentence, the rate shall be the J.J. Kenny Index, *provided*, *however*, that if the J.J. Kenny Index also ceases to be published, an alternative index shall be calculated by an entity selected in good faith by the State, and shall be determined using the criteria for the BMA Municipal Swap Index.

"*Bond Counsel*" means, with respect to the original issuance of the Bonds, Chapman and Cutler LLP, Chicago, Illinois, and Burris, Wright, Slaughter & Tom LLC, as co-bond counsel, and thereafter any firm of attorneys whose opinions are generally acceptable to purchasers of tax-exempt obligations of political subdivisions of state and local government, selected by the State, and acceptable to the Trustee.

"*Bond Fund*" means the fund by that name established by the Indenture and as described herein in "APPENDIX F—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE OF TRUST."

"*Bond Sale Order*" means the Bond Sale Order, duly approved by the Governor of the State and the Director on the 29th day of October 2003, authorizing the issuance, sale, and delivery of the Bonds and authorizing the execution and delivery of the Indenture.

"*Bondholder*" or "*bondholder*," when used with respect to a Series 2003B Bond, means the person or entity in whose name such Series 2003B Bond shall be registered.

"*Business Day*" or "*business day*" means any day on which interbank wire transfers can be made on the Fedwire System, other than (1) a Saturday, a Sunday, or, in the cities in which the principal corporate trust office or operations office of the Trustee, the principal corporate office of the Tender Agent, the principal corporate office of the Remarketing Agent, or the office of a Liquidity Provider at which demands under a Liquidity Facility are to be honored is located, a day on which banking institutions are authorized or required by law or executive order to close or (2) a day on which the New York Stock Exchange is closed.

*"Code*" means the Internal Revenue Code of 1986, as amended.

"*Conversion Date*" means an Adjustable Rate Conversion Date, a Monthly Rate Conversion Date, an Auction Rate Conversion Date or a Weekly Rate Conversion Date, as applicable.

"*Credit Facility*" means any letter of credit, line of credit, bank bond purchase agreement, revolving credit agreement, surety bond, bond insurance policy, or other agreement or instrument under which any Person other than the State undertakes to make or provide funds to make payment of the principal or premium, if any, and interest on Bonds, delivered to and received by the Trustee.

"*Credit Provider*" means, as applicable, the Series 2003B-1 Bank, Series 2003B-2 Bank, Series 2003B-3 Bank, Series 2003B-4 Bank, Series 2003B-5 Bank and Series 2003B-6 Bank.

"*Default Time*" means the time established for such term as shown in the Table of Changeable Provisions.

"*Differential Interest Amount*" shall have the meaning set forth in the applicable Liquidity Facility.

"*Event of Default*," used with respect to the Indenture, means any event specified in the provisions of the Indenture and described herein under "APPENDIX F—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE OF TRUST—Events of Default under the Indenture."

"*Expense Fund*" means the fund by that name established pursuant to the Bond Ordinance and held by the State.

"*Expiration Date*" means the date upon which a Liquidity Provider's obligation to purchase Bonds under its applicable Liquidity Facility is scheduled to expire (either at the end of the commitment period under such Liquidity Facility or upon the last day of any extension as provided under such Liquidity Facility) in accordance with its terms, a conversion to the Adjustable Rate Mode or Auction Rate Mode, or the deposit of an Alternate Liquidity Facility with the Trustee.

"*Favorable Bond Counsel Opinion*" means an opinion of Bond Counsel to the effect that a given action is authorized and permitted under applicable State law and the Indenture or related documents and will not adversely affect the Tax-exempt status of the Bonds.

"*Final Payment Review Time*" means the time established for such term as shown in the Table of Changeable Provisions.

"*Fiscal Year*" means any 12-month period beginning on July 1 of any calendar year and ending on the last day of June of the following calendar year or such other consecutive 12-month period selected by the State as the Fiscal Year for the State.

"*Fitch*" means Fitch, Inc., a Delaware Corporation, and its successors and assigns.

"*Government Obligations*" means (1) direct obligations of the United States of America or any agency or instrumentality of the United States of America, (2) obligations on which the timely payment of principal and interest is fully guaranteed by the United States of America or any agency or instrumentality of the United States of America, or (3) evidences of a direct ownership interest in amounts payable upon any of the obligations set forth in (1) or (2) of this definition.

"*Indenture*" means the Indenture of Trust between the State and Trustee dated as of October 1, 2003, including all amendments hereof and supplements hereto.

"*Indexing Agent*" means Municipal Market Data, Boston Massachusetts, a Thomson Financial Services Company, or its successor.

"*Indirect Participant*" means a broker-dealer, bank, or other financial institution for which the Securities Depository holds Bonds as a securities depository through a Participant.

"*Interest Payment Date*" means as follows: (1) if other than a Bank Bond, then an Adjustable Rate Interest Payment Date, a Weekly Rate Interest Payment Date, a Monthly Rate Interest Payment Date or an Auction Rate Interest Payment Date (with respect to any Series 2003B Bond), each date upon which a Bonds shall be subject to mandatory tender for purchase pursuant to the Indenture, and any Stated Maturity of the Bonds or (2) if a Bank Bond, then the first Business Day of each month and each other day on which interest is requested to be paid pursuant to a Liquidity Facility.

"*J.J. Kenny Index*" means, with respect to a Series 2003B Bond in the Weekly Rate Mode for which a rate is not, or cannot be, set pursuant to the provisions of the Indenture and described in this Remarketing Circular in "THE BONDS — Interest Rate," and if the BMA Municipal Swap Index is no longer published, the index generally made available on the applicable date on which the interest rate on a Series 2003B Bond shall be determined pursuant to the Indenture, by Kenny Information Systems or any successor thereto. The J.J. Kenny Index shall be based upon 30-day yield evaluations at par of bonds, the interest on which is exempt from Federal income taxation under the Code, of not less than five "high grade" component issuers selected by the Kenny Information Systems which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by the Kenny Information Systems in its discretion. The bonds on which the J.J. Kenny Index is based shall not include any bonds the interest on which is subject to a "minimum tax" or similar tax under the Code, unless all tax-exempt bonds are subject to such tax.

"*Liquidity Call Payment Time*" means the time established for such term as shown in the Table of Changeable Provisions.

"*Liquidity Facility*" means the Liquidity Facility in effect for the applicable Subseries of Bonds.

"*Liquidity Provider*" means the issuer of any Alternate Liquidity Facility, its successors in such capacity and its assigns.

"*Maturity*" means the date the principal of any Series 2003B Bond becomes due and payable, either by redemption or at Stated Maturity, but not by a declaration or event under the Liquidity Facility.

"*Maximum Rate*" means the rate or rates per annum payable with respect to Bonds as follows: (1) if other than a Bank Bond (i) the greater of 9% per annum or 125% of the rate for the most recent date shown in the 20 G.O. Bonds Index of average municipal bond yields as published in the most recent edition of The Bond Buyer, published in New York, New York (or any successor publication or index, or if such publication or index is no longer published, then any index of long term municipal tax-exempt bonds yields then selected by the State) or (ii) if a Liquidity Facility is then in effect, such lower maximum interest rate as is specified therein, or (2) if a Bank Bond, the greater of (i) 12% or (ii) the then current statutory rate, namely, the greater of 13.5% per annum or 200% of the rate for the most recent date shown in the 20 G.O. Bonds Index of average municipal bond yields as published in the most recent edition of The Bond Buyer, published in New York, New York (or any successor publication or index, or if such publication or index is no longer published, then any index of long term municipal tax-exempt bonds yields then selected by the State).

"*Mode*" means any of the interest rate modes which may exist from time to time with respect to any Series 2003B Bond, including the Adjustable Rate Mode, Monthly Rate Mode, Auction Rate Mode or the Weekly Rate Mode, as appropriate.

"*Monthly Interest Period*" means each period during which the Bonds bear interest at a Monthly Rate as provided in the Indenture.

"*Monthly Rate*" means the interest rate per annum on the Bonds established in accordance with the Indenture and as described in this Remarketing Circular in "THE BONDS —Interest Rate."

"*Monthly Rate Conversion Date*" means each date on which the Bonds, having been converted to the Monthly Rate Mode from another Mode, first begin to bear interest at a Monthly Rate in accordance with the terms hereof.

"*Monthly Rate Interest Payment Date*" means the first Business Day of each month during a Monthly Rate Mode.

"*Monthly Rate Mode*" means the Mode in which the Bonds bear interest at a Monthly Rate.

"*Moody's*" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns.

"*Outstanding*" or "*Bonds outstanding*" or "*Bonds then outstanding*," at the time in question, means all Bonds which have been executed and delivered by the State and authenticated by the Trustee or the Tender Agent under the Indenture, except: (1) Bonds theretofore cancelled by the

Trustee or surrendered to the Trustee for cancellation; (2) Bonds paid or deemed to be paid pursuant to the Indenture; (3) Bonds in lieu of or in exchange for which other Bonds shall have been executed and delivered by the State and authenticated by the Trustee or the Tender Agent pursuant to the Indenture; and (4) Undelivered Bonds.

"*Participant*" means a broker-dealer, bank, or other financial institution for which the Securities Depository holds Bonds.

"*Person*" means an individual, a corporation, a partnership, an association, a trust, or any other entity or organization, including a governmental or political subdivision or any agency or instrumentality thereof.

"*Prior Bonds*" means the outstanding bonds of the State being refunded with the proceeds of the Bonds, as more particularly described in the Escrow Agreement.

"*Program Expense Fund*" means the fund of such name established pursuant to the Indenture.

"*Program Expenses*" means, in any Bond Year, all initial and ongoing costs and expenses of the Trustee, Remarketing Agent, Escrow Agent, Market Agent, Broker-Dealers, Auction Agent, Tender Agent, bond registrar, or paying agent, like professional fees and the fees and expenses related to the Liquidity Facility.

"*Purchase Bond Delivery Time*" means the time established for such term as shown in the Table of Changeable Provisions.

"*Qualified Tax Exempt Obligations*" means (a) any obligation described in Section 103(a) of the Code, the interest on which is excludable from gross income of the owner thereof for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax imposed by Section 55 of the Code; (b) an interest in a regulated investment company to the extent that at least ninety-five percent of the income to the holder of the interest is interest which is excludable from gross income under Section 103 of the Code of any owner thereof for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax imposed by Section 55 of the Code; and (c) certificates of indebtedness issued by the United States Treasury pursuant to the Demand Deposit State and Local Government Series program described in 31 C.F.R. part 344.

"*Rating Agencies*" means S&P or Moody's, or both, according to which of such rating agencies then rates the Bonds; and, *provided*, that, if neither of such rating agencies then rates the Bonds, the term "Rating Agencies" shall refer to any national rating agency (if any) which provides such rating; and, *provided*, *further*, that, if at any time only one Rating Agency then rates the Bonds, "*Rating Agencies*" shall at that time mean only such Rating Agency as is then rating the Bonds.

"*Rebate Fund*" means the fund by that name established hereunder and funded as provided in the Tax Agreement.

"*Record Date*" means (1) with respect to any Weekly Rate Interest Payment Date or a Monthly Rate Interest Payment Date, the close of business on the Business Day next preceding such Interest Payment Date, (2) with respect to any Adjustable Rate Interest Payment Date, the close of business on the fifteenth day of the calendar month next preceding such Interest Payment Date, and (3) with respect to any Auction Rate Interest Payment Date, the close of business on the second Business Day next preceding such Interest Payment Date.

"*Refunding*" means the refunding defined as such in the preambles of the Indenture.

"*Regulations*" means the temporary and permanent Income Tax Regulations promulgated or proposed by the Department of the Treasury pursuant to the Code, as applicable to the Bonds.

"*Reimbursement Agreement*" means the Letter of Credit and Reimbursement Agreement, dated as of November 1, 2013, by and among the State, JPMorgan Chase Bank, National Association, PNC Bank, National Association, Wells Fargo Bank, National Association, State Street Bank and Trust Company, Royal Bank of Canada and The Northern Trust Company, as may be supplemented and amended from time to time.

"*Remarketing Agent*" means the Remarketing Agent appointed in accordance with the Indenture, and means Barclays Capital Inc., New York, New York, with the "Principal Office" of such Remarketing Agent meaning the office thereof designated in writing to the State, the Trustee, and the applicable Liquidity Provider, initially being the office of the Remarketing Agent located at Barclays Capital Inc., 745 Seventh Avenue, 19th Floor, New York, New York 10019, Attention: Municipal Bond Department, Short Term Products.

"*Remarketing Agreement*" means the Remarketing Agreement, dated as of November 1, 2013, as amended and supplemented from time to time, between the State and the Remarketing Agent.

"*Remarketing Date*" means November 27, 2013.

"*Required Amount of the Credit Facility*" means the amount required to be available under the Credit Facility from time to time, as specified in the Indenture.

"*Sale Date*" means such term as defined in the Credit Facility.

"*S&P*" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, its successors and assigns.

"*Securities Depository*" means The Depository Trust Company and any substitute for or successor to such securities depository that shall maintain a Book-Entry System with respect to the Bonds.

"*Securities Depository Nominee*" means the Securities Depository or the nominee of such Securities Depository in whose name there shall be registered on the registration books of the State the Bonds to be delivered to such Securities Depository during the continuation with such Securities Depository of participation in its Book-Entry System.

"*Series 2003B Account*" means, as applicable, the Series 2003B-1 Account, Series 2003B-2 Account, Series 2003B-3 Account, Series 2003B-4 Account, Series 2003B-5 Account and Series 2003B-6 Account.

"*Series 2003B-1 Bank*" means JPMorgan Chase Bank, National Association, its successors in such capacity and its assigns.

"*Series 2003B-2 Bank*" means PNC Bank, National Association., its successors in such capacity and its assigns.

"*Series 2003B-3 Bank*" means Wells Fargo Bank, N.A., its successors in such capacity and its assigns.

"*Series 2003B-4 Bank*" means State Street Bank and Trust Company, its successors in such capacity and its assigns.

"*Series 2003B-5 Bank*" means Royal Bank of Canada, its successors in such and its assigns.

"*Series 2003B-6 Bank*" means The Northern Trust Company, its successors in such capacity and its assigns.

"*Series 2003B-1 Bonds*" means $166,000,000 aggregate principal amount of the State of Illinois Variable Rate General Obligation Bonds, Series B-1 of October 2003.

"*Series 2003B-2 Bonds*" means $125,000,000 aggregate principal amount of the State of Illinois Variable Rate General Obligation Bonds, Series B-2 of October 2003.

"*Series 2003B-3 Bonds*" means $100,000,000 aggregate principal amount of the State of Illinois Variable Rate General Obligation Bonds, Series B-3 of October 2003.

"*Series 2003B-4 Bonds*" means $75,000,000 aggregate principal amount of the State of Illinois Variable Rate General Obligation Bonds, Series B-4 of October 2003.

"*Series 2003B-5 Bonds*" means $75,000,000 aggregate principal amount of the State of Illinois Variable Rate General Obligation Bonds, Series B-5 of October 2003.

"*Series 2003B-6 Bonds*" means $59,000,000 aggregate principal amount of the State of Illinois Variable Rate General Obligation Bonds, Series B-6 of October 2003.

"*State*" means the State of Illinois.

"*State Payment Time*" means the time established for such term as shown in the Table of Changeable Provisions.

"*Stated Maturity*" means the stated date of final maturity with respect to the Bonds.

"*Subseries of Bonds*" or "*Subseries*" means a subseries of Bonds.

"*Swap Agreement*" or "*Swap Transaction*" means an interest rate swap agreement or transaction as described in the Bond Sale Order and which the State has identified to the Trustee with the Indenture.

"*Swap Payment*" means amounts payable by the State under a Swap Transaction.

"*Swap Provider*" means a person or persons who are the counterparty or counterparties under a Swap Transaction.

"*Table of Changeable Provisions*" means Exhibit B to the Indenture, incorporated by reference, as substituted, modified, or amended from time to time and as set forth at the end of "APPENDIX F—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE OF TRUST" herein.

"*Tax Agreement*" means the Tax Exemption Certificate and Agreement, dated as of October 29, 2003, between the State and the Trustee, as amended and supplemented.

"*Tax-exempt*" when used with respect to the Bonds means the status of interest paid and received thereon as exempt from federal income taxation as provided in Section 103 of the Code.

"*Tender Agent*" means the Tender Agent appointed in accordance with the Indenture if the Bonds are not then held under a Book-Entry System and *"Principal Office"* of the Tender Agent means the office thereof designated in writing to the State, the Trustee, the Agent, and the Remarketing Agent.

"*Time of Advice of Purchasers*" means the time established for such term as shown in the Table of Changeable Provisions.

"*Trust Estate*" means the property conveyed to the Trustee pursuant to the Granting Clause of the Indenture.

"*Trustee*" means Bank One, National Association, as Trustee under the Indenture, its successors and assigns, and any successor trustee appointed hereunder.

"*Undelivered Bonds*" means Bonds for which notice of optional tender shall have been given pursuant to the Indenture and Bonds subject to mandatory tender pursuant to the Indenture, for which available moneys sufficient to pay the purchase price have been deposited with the Tender Agent on or before the purchase date of such Bonds, but which Bonds were not delivered to the Tender Agent on or before such purchase date.

"*Weekly End Day*" means the Weekly End Day as shown in the Table of Changeable Provisions.

"*Weekly Interest Period*" means, while the Bonds are in the Weekly Rate Mode, each period from and including the Weekly Start Day of each week (and, if the first day of any Weekly Rate Mode is not a Weekly Start Day, the Weekly Rate Conversion Date on which such Weekly Rate Mode commences) through and including the following Weekly End Day, whether or not such days are Business Days; and, notwithstanding the foregoing, the initial Weekly Interest Period shall commence on the Remarketing Date and shall end on the following Weekly End Day.

"*Weekly Rate*" means the interest rate per annum on the Bonds established in accordance with the provisions of the Indenture and described in this Remarketing Circular in "THE OFFERING—DESCRIPTION OF THE Bonds—Interest Rate."

"*Weekly Rate Conversion Date*" means each date on which the Bonds, having been converted to the Weekly Rate Mode from another Mode, first begin to bear interest at a Weekly Rate in accordance with the terms of the Indenture.

"*Weekly Rate Interest Payment Date*" means the first Business Day of each month for Bonds issued initially in Weekly Rate Mode. The first Interest Payment Date of the remarketed Bonds will be December 2, 2013.

"*Weekly Rate Mode*" means the Mode in which the Bonds bear interest at a Weekly Rate.

"*Weekly Start Date*" means Weekly Start Day as shown in the Table of Changeable Provisions.

SEAL OF THE STATE OF ILLINOIS

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STATE OF ILLINOIS • VARIABLE RATE GENERAL OBLIGATION BONDS, SERIES B OF OCTOBER 2003



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