

State of Illinois

Investor Presentation
General Obligation Refunding Bonds, Series A&B of September 2018
August 16, 2018

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Presentation Participants

State of Illinois
Governor's Office of Management and Budget

Hans Zigmund, *Director*

Kelly Hutchinson, *Director of Capital Markets*

Financial Advisor

Columbia Capital Management, LLC

Courtney Shea, *Principal*

Senior Manager

J.P.Morgan

Don Wilbon, *Managing Director*

Marshall Kitain, *Executive Director*

State of Illinois Management Team

Hans Zigmund, Director

- Appointed Director of GOMB in January 2018
- Prior to his current position, Hans served as Director of Economic Policy in the Governor's Office
- Served for 4 years as Chief Economist at the Department of Revenue; and for 2 years as Associate Director of GOMB
- Prior to joining GOMB, he was an Economist at the Department of Revenue for 5 years
- Taught economics, statistics and public finance at Roosevelt University where he also earned his Masters degree in economics

Kelly Hutchinson, Director of Capital Markets

- Appointed Director of Capital Markets in November 2015
- Responsible for day-to-day operations of Illinois' debt program
- Formerly a Director at a nationally ranked financial advisory firm
- Almost 20 years of Capital Markets experience in Public Finance and Corporate Finance, including investment banking

Transaction Overview*

General Obligation Bonds, Series of September 2018A&B	
Estimated Size	Series A: $656,520,000 Series B: $263,670,000
Use of Proceeds	The Series of September 2018A&B Bonds are to be used for the purpose of providing funds for the refunding of certain GO Bonds of the State, including making any necessary payments to providers, with respect to the Series 2018A Bonds, of interest rate exchange agreements in connection with the refunding of the Series B of October 2003 Variable Rate GO Bonds, as well as the costs of issuance for the Bonds.
Tax Status	Federally Tax-Exempt, State of Illinois Taxable
Coupon	Fixed Rate
Amortization	Principal beginning October 1, 2020 for Series A, and for Series B beginning October 1, 2021.
Interest Payment Dates	April and October 1 of each year, commencing April 1, 2019.
Redemption Features	10-Year Par Call: Series A&B
Security and Repayment Source	Direct, full faith and credit general obligations of the State pursuant to the General Obligation Bond Act (the "Bond Act"). The provisions of the Bond Act are irrepealable until all bonds issued under the Bond Act, including the Series 2018 Refunding Bonds, are paid in full as to both principal and interest.
Ratings (Moody's/ S&P /Fitch)	Baa3 (Stable) / BBB- (Stable) / BBB (Negative)
Sale Date	August 22, 2018
Closing Date	September 5, 2018
Financial Advisor	Columbia Capital Management LLC
Senior Manager	J.P. Morgan

Preliminary and subject to change

Preliminary Amortization		
Maturity (Oct. 1st)	**Series A**	**Series B**
2020	$44,400,000	$-
2021	76,780,000	23,000,000
2022	88,030,000	24,360,000
2023	71,590,000	23,000,000
2024	24,970,000	23,000,000
2025	24,725,000	17,000,000
2026	36,500,000	10,290,000
2027	55,710,000	13,415,000
2028	99,825,000	22,830,000
2029	42,075,000	36,965,000
2030	30,675,000	27,000,000
2031	6,455,000	22,000,000
2032	9,850,000	20,810,000
2033	44,935,000	-
Total	**$656,520,000**	**$263,670,000**

1. Illinois' Strong and Diverse Economy

The State's Credit Fundamentals are Improving

- General Funds Base Revenues increased to $36.9 billion in FY18, an increase of 21.89% from FY17, largely reflecting an increase in individual and corporate income tax rates
- As of June 30, 2018, the State estimates that the bill backlog was $6.8 billion, lower than State's previous estimate of $7.7 billion
- As of August 1, 2018 the bill backlog was approximately $7.4 billion
- Upon issuance of the Series 2018 Refunding Bonds, the State will eliminate all of its derivative exposure, while also generating debt service savings

Recent Developments

- ✓ Passage of FY19 Budget
- ✓ Higher than anticipated revenues in fiscal year 2018:
  - ✓ Individual income tax in FY18 was 0.7% higher than projected
  - ✓ Corporate income tax in FY18 was 7.1% higher than projected
  - ✓ Federal sources finished the year $614 million, or 17.9%, above projections
- ✓ In June, the Wayfair decision was decided in a manner beneficial to the State, allowing the state to collect sales tax from online retailers

Inherent Credit Strengths

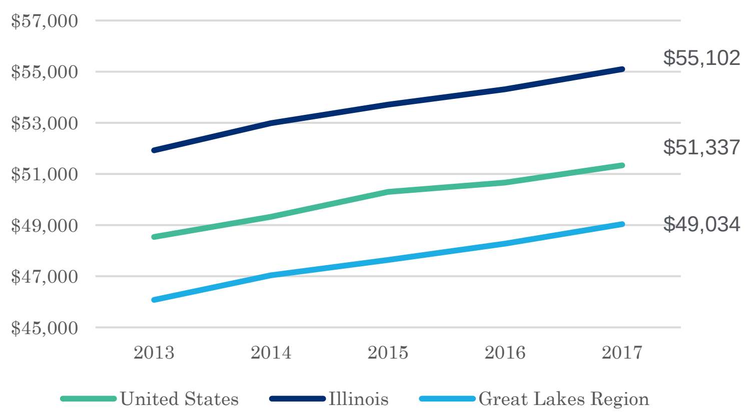
- ✓ Sovereign State with significant revenue flexibility
- ✓ Illinois' economy is the 5th largest in the United States and 19th largest worldwide[1]
- ✓ The Bond Act constitutes an irrevocable continuing appropriation for all debt service payments on GO Bonds
- ✓ After FY19, pension bonds debt service declines by approx. $1 billion, providing significant financial flexibility

Note: Amounts related to the plan of finance and bill backlog are estimates
1. Source: US Department of Commerce Bureau of Economic Analysis for the Illinois ranking. IMF and World Bank for the international ranking

Illinois is the Economic Core of the Midwest and Continues to Grow

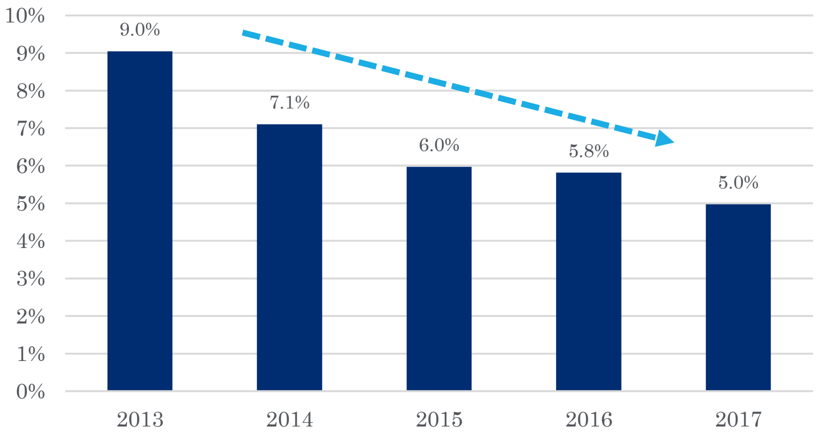
Upward Trend in Illinois Real GDP Per Capita[1]

Illinois outperforms the U.S. and Great Lakes Region in terms of Real GDP



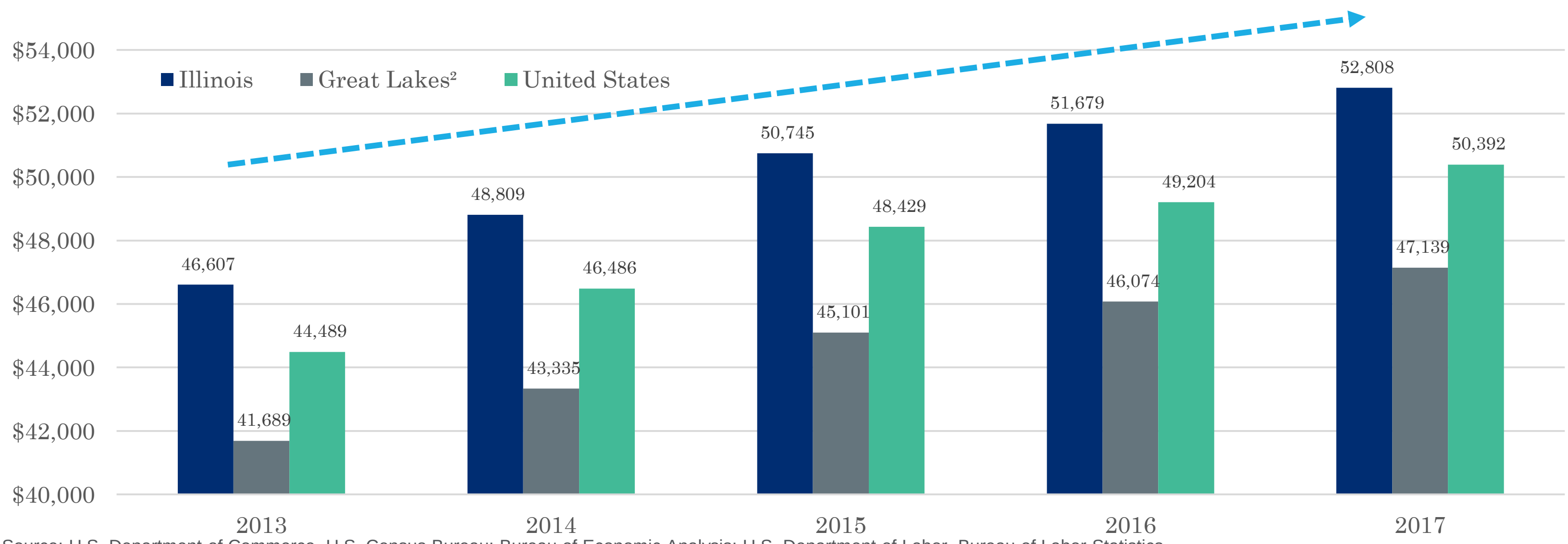
Illinois Unemployment Continues to Decline

Unemployment approximates national levels



Per Capita Personal Income

Illinois' Per Capita Income is ranked 3rd among the 10 most populous states and 15th among all states



Source: U.S. Department of Commerce, U.S. Census Bureau; Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics

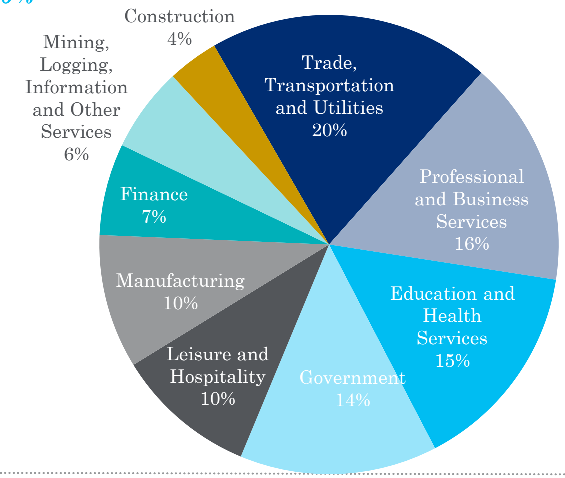
1. 2009 Chained Dollars
2. Great Lakes Per Capita Personal Income consists of Illinois, Wisconsin, Ohio, Michigan and Indiana

Illinois' Economic Growth is Driven by a Large, Highly Educated Population and Diverse Employment Mix

- Illinois is the 6th most populous state in the nation and its highly educated population has fueled the region's growing and diversified economy
- Illinois' economy is the 5th largest in the United States and 19th largest worldwide
- The State is home to two of the country's busiest airports and is a major hub for rail, trucking and waterway transportation networks

Illinois Non-Farm Employment by Industry

Broad employment base with no industry accounting for more than 20%



Note: Totals may not add due to rounding

Select Illinois-Headquartered Fortune 500 Companies

37 Fortune 500 companies are headquartered in Illinois; only New York, California, and Texas have more

Source: Bureau of Labor Statistics; Fortune; US Department of Commerce Bureau of Economic Analysis; IMF; World Bank

2. Budget Update

FY 2018 General Funds Revenue Update

- In FY18, the State's General Fund base revenues totaled $36.9 billion, nearly $6.6 billion higher than FY17
- Net individual and corporate income taxes increased by $4.7 billion
  - Increases reflect changes in individual and corporate income tax rates – individual up to 4.95% from 3.75%, corporate up to 7.00% from 5.25%
- Net sales taxes totaled $7.8 billion
- Approximately $1.6 billion was deposited directly into the local government sharing funds[1] instead of first being deposited in the general funds
- Transfers In increased to $1.9 billion, up from $1.5 billion
- Federal sources increased to $4.0 billion approximately $1.5 billion increase over FY2017 actual
  - $1.2 billion in federal reimbursements received in FY18 for FY17 Medicaid bills paid with bond proceeds in November 2017 are not included in the FY18 totals
- Fund reallocations in the approximate amount of $269 million and interfund borrowing of $533 million

($ billions) – Totals may not add due to rounding	**Actual FY 2017**	**Actual FY 2018**	**% Change**	**$ Change**
State Sources: Revenues				
Net Individual Income Taxes	13.7	17.7	29.2%	4.0
Net Corporate Income Taxes	1.3	2.0	53.8%	0.7
Net Sales Taxes	8.0	7.8	(2.5%)	(0.2)
Total Income and Sales Taxes	**23.0**	**27.5**	**19.6%**	**4.5**
Other State Revenues and Transfers	3.3	3.5	6.1%	0.2
Transfers In	1.5	1.9	26.7%	0.4
Total State Sources	**27.9**	**32.9**	**17.9%**	**5.0**
Federal Sources	2.5	4.0	60.0%	1.5
TOTAL, BASE, RESOURCES	**30.3**	**36.9**	**21.8%**	**6.6**
Interfund Borrowing and Fund Reallocations	-	0.8	-	0.8
TOTAL RESOURCES	**30.3**	**37.7**	**24.4%**	**7.4**

1. Local Government Distributive Fund (LGDF), Public Transportation Fund (PTF), and Downstate Public Transportation Fund (DPTF)

Note: General Funds was redefined for FY18 to include the Commitment to Human Services Fund (HSF), the Fund for the Advancement of Education (FAE) and the Budget Stabilization Fund (BSF) along with the Common School Fund, General Revenue-Common School Special Account Fund, Education Assistance Fund, and General Revenue Fund in the definition of General Funds. The FY17 revenue actuals in this table reflect the new definition.

Estimated Spending for FY 2018

- Total estimated expenditures of $38.6 billion
- Elementary and Secondary education appropriations are up $505 million
- $221 million contribution to the Chicago teachers' pension system and health insurance
- The general fund pension contributions increased by $63 million
- Statutory transfers out are projected to decline by $1.8 billion, primarily reflecting the switch to direct deposit of local government revenue sharing
- FY18 appropriations include a full GRF appropriation of $1.9 billion for State employee and retiree health insurance (this represents the normal cost for a fiscal year)
  - No deposits were made in FY16 or FY17 to the Health Insurance Reserve Fund due to the budget impasse, but approximately $4 billion from the backlog borrowing effectively covered those liabilities
- The State has paid down $4.7 billion in Medicaid bills. $2.5 billion of the proceeds from the bill backlog bond sale (November 2017) were used to pay FY17 bills
- A $1.1 billion general funds supplemental appropriation has been passed for FY18 to cover unfunded prior year FY17 liabilities

General Funds Expense Estimates

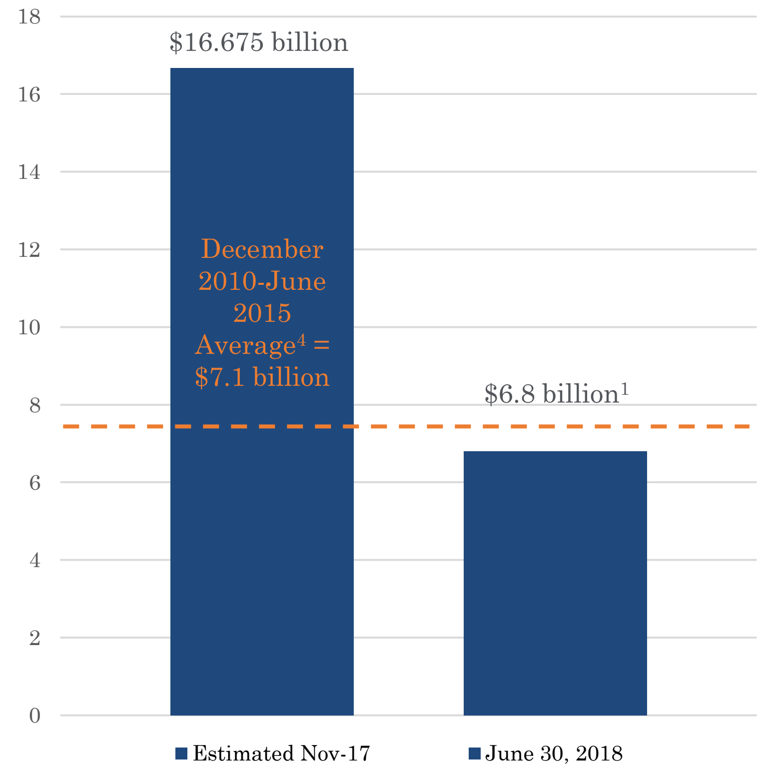
($ billions) – Totals may not add due to rounding	Actual FY 2017	Estimated FY 2018	% Change	$ Change
Operating Budget (from Appropriations)	31.0	35.2	13.5%	4.2
GO Bond Debt Service Transfers	2.2	2.8	27.3%	0.6
Other Statutory Transfers	2.4	0.6	(75.0%)	(1.8)
TOTAL EXPENDITURES	**35.7**	**38.6**	**8.4%**	**2.9**
Comptroller Budgetary Basis Adjustments	-	-	-	-
General Funds Surplus/(Deficit)	**(5.1)**	**(0.8)**		**4.3**
FY 2017 Carryover Need (Additional Appropriations)	-	-		-
Backlog Borrowing Proceeds[1]	-	2.5		2.5
Federal Revenue Due to Medicaid Backlog Payments	-	1.2		1.2
Adjusted General Funds Surplus/(Deficit)	**(7.9)**	**2.9**		**8.0**

1 Approximately $4.0 billion of the November 2017 backlog borrowing proceeds were deposited into the Health Insurance Reserve Fund and $2.5 billion deposited into the General Revenue Fund.

Update on Accounts Payable Backlog

- The General Funds total of budget basis accounts payable, Section 25 Liabilities and income tax refunds outstanding at June 30, 2018 is estimated to total $9.5 billion
- The proceeds of the November 2017ABCD Bonds were used to pay a portion of the backlog of bills.
- The Comptroller transferred $2.5 billion to the General Revenue Fund and approximately $4.0 billion to the Health Insurance Reserve Fund
- The State's backlog of bills as of June 30, 2018 was approximately $6.8 billion, $900 million less than the projected bill backlog of $7.7 billion

Estimated Bill Backlog ($billions)



End of Fiscal Year General Funds Accounts Payable ($millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
General Funds Budget Basis Accounts Payable[2]	$4,142	$4,005	$3,521	$3,789	$9,061
General Funds Section 25 Liabilities[3]	1,864	1,622	1,598	3,307	5,932
Total General Funds Accounts Payables	**6,006**	**5,627**	**5,119**	**7,096**	**14,993**
Section 25 Liabilities - Other State Funds	489	429	316	956	162

Table Source: Illinois Office of the Comptroller data. 1. GOMB estimates. 2. Includes General Funds Lapse Period Transactions as reported in the TBFR. 3. Section 25 Liabilities are incurred in one fiscal year and payable from future fiscal year appropriations. 4. Takes into account Comptroller estimates from December 31 and June 30 of each year when calculating the average. This amount is the General Funds portion of Section 25 liabilities.

FY19 Budget Overview

- The State's three largest revenue sources, individual income tax, corporate income tax and sales tax are estimated to total $28.3 billion in FY19. Other sources for the General Funds are expected to total $9.4 billion in FY19. This number assumes the receipt of $300 million from the anticipated divestiture of the James R. Thompson Center
- The FY19 State resources estimate excludes deposits of $1.7 billion into the Local Government Distributive Fund, Public Transportation Fund and Downstate Public Transportation Funds from income and sales tax receipts prior to the deposit of these revenue sources into the General Funds
- In FY19, Transfers In and Federal Sources are expected to bring $1.9 billion and $3.8 billion to the State sources, respectively. Interfund Borrowing is projected to add an additional $800 million to the State's Total Resources, contributing to a 2.1% increase from FY18
- The FY19 projected surplus of $14 million will be earmarked to address the backlog of accounts payable. This surplus does not take into account the undetermined cost of wage increases for AFSCME State workers, retroactive to July 1, 2015, which may exceed $400 million

General Funds Projections

($ billions) - Totals may not add due to rounding	Actual FY 2018	Projected FY 2019	% Change	$ Change
Total Income and Sales Taxes	**27.5**	**28.3**	**2.9%**	**0.8**
Other State Revenue and Transfers	3.5	3.6	2.9%	0.1
Transfers In	1.9	1.9	0.0%	0.0
Federal Sources	4.0	3.8	(5.0%)	(0.2)
Subtotal, Resources	**36.9**	**37.7**	**2.2%**	**0.8**
Interfund Borrowing and Fund Reallocations	0.8	0.8	0.0%	0.0
Total Resources	**37.7**	**38.5**	**2.1%**	**0.8**
Total Expenditures[1]	**38.6**	**38.5**	**(0.3%)**	**(0.1)**
General Funds Surplus/(Deficit)	**(0.8)**	**-**		**0.8**

1. Total Expenditures are estimated for FY 2018

3. Pensions

Pension Overview

- Actuarial Assets as of FY 2017 for the 5 systems combined are $85.6 billion and the Fair Market Value of Assets is $85.4 billion.
- The State Retirement Systems, in aggregate, were funded at 39.9% as of FY 2017 based on the asset smoothing method and 39.8% using fair market value; individual percentages for each fund vary
- FY17 investment returns were in excess of 12%, above actuarial assumptions
- FY 2018 State contributions to the retirement systems totaled $7.8 billion[1], or 75% of the State's ARC/ADC

History of Employer Contributions for TRS, SURS, SERS, GARS and JRS ($millions)

Fiscal Year	Amount Contributed[1]	ARC/ADC Per GASB[2]	Percentage Contributed
2014	6,944.7	7,752.0	89%
2015	7,020.1	7,896.8	88%
2016	7,501.9	8,388.4	89%
2017	7,803.6	10,422.7	74%

Investment Rate of Return Assumptions Used by the Retirement Systems

	2009	2017
TRS	8.50%	7.00%
SURS	8.50%	7.25%
SERS	8.50%	7.00%
GARS	8.00%	6.75%
JRS	8.00%	6.75%

Notes: Annual Actuarial valuations of the Retirement Systems as of June 30, 2017. Comprehensive Annual Financial Reports of the Retirement Systems for the fiscal years ending June 30, 2017

1. Includes General Revenue Funds and Other State Funds; 2. TRS revised ADC calculation for 2017 which led to a $1.6B increase for their annual contribution 3. SURS Board revised its investment assumption to 6.75% on March 9, 2018, which will impact FY2020 contributions

2. See the Preliminary Official Statement for a discussion of the Actuarially Required Contribution ("ARC") and the Actuarially Determined Contribution ("ADC"). Amounts shown for 2014 and 2015 reflect the ARC while amounts shown for 2016 and 2017 reflect the ADC.

Accelerated Pension Benefit Payment Program and Other Provisions Under P.A. 100-587

- P.A. 100-587 establishes two programs for eligible members of TRS, SURS, and SERS to forego certain benefits to which they are entitled in exchange for up-front payments from the State
- Pension Buyout Program
  - Tier 1 and Tier 2 members meeting certain requirements may forfeit rights to benefit payments in exchange for a payment equal to 60% of the present value of the pension benefit to which the member is entitled
- Automatic Annual Increase (AAI) Reduction Program
  - Tier 1 members meeting certain requirements may forfeit the 3% compounded AAI in exchange for (i) a 1.5% non-compounded AAI and (ii) a pension benefit payment from the State equal to 70% of the difference in the present value of the AAIs
- Programs have not yet been implemented by the eligible Retirement Systems
- P.A. 100-587 authorized the issuance of $1 billion G.O. Bonds to provide the source of payment for these accelerated benefit programs
- The Fiscal Year 2019 Budget was prepared based on an estimate that these programs will result in General Funds savings for the State of approximately $400 million, however, the State can provide no assurance as to the amount of savings actually realized from the implementation of such programs

4. Debt Overview and Plan of Finance

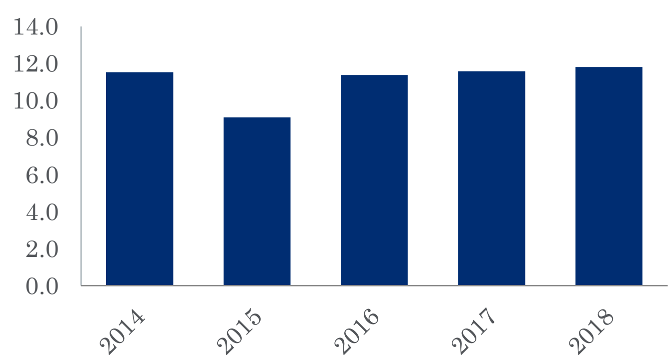
Security for Illinois General Obligation Bonds

Security	• The full faith and credit of the State is pledged for the punctual payment of principal and interest under the Bond Act – The State can draw from all State funds in the State Treasury that are not restricted by law to another use if needed to pay debt service on GO bonds
Statutorily Mandated Debt Service Set Asides (GOBRI)	• Under the Bond Act, monthly transfers are made from various State funds to the General Obligation Bond Retirement and Interest Fund (GOBRI), in amounts sufficient to pay the next interest and principal payments when due, which effectively results in the State transferring 1/12th of the next principal payment and 1/6th of the next interest payment every month • GOBRI is a separate fund in the Treasury that can be applied to debt service payable on GO bonds and short-term debt
Continuing Appropriation of Funds	• The Bond Act requires the Governor to include an appropriation in each annual budget of monies in an amount necessary to pay all principal and interest due and further requires the General Assembly to make appropriations annually to pay debt service on outstanding GO Bonds from GOBRI • In the absence of appropriations, the Bond Act itself constitutes an irrevocable and continuing appropriation of all amounts necessary to pay principal and interest • Principal and interest on all outstanding GO Bonds must be paid even in the absence of a State budget
Additional Protection under Illinois Constitution and State Laws	• The Bond Act explicitly provides bondholders the remedy to sue the State to compel payment of GO bonds • The provisions of the Bond Act, pledging the full faith and credit of the State to GO bonds issued thereunder, are by their terms irrepealable until all outstanding GO bonds issued under the Bond Act are paid in full as to both principal and interest • The Illinois Constitution contains a "non-impairment" clause that prohibits action by the General Assembly that would, under contract law, impair the obligations of a contract between the State and its bondholders

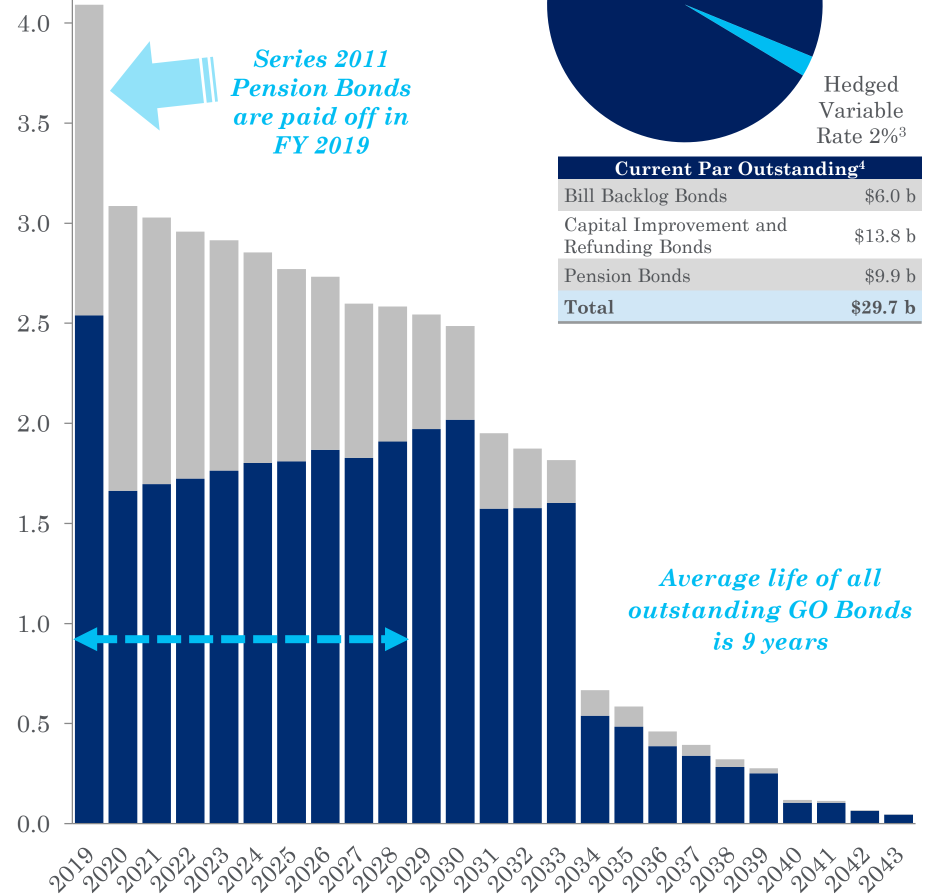
General Obligation Bond Overview

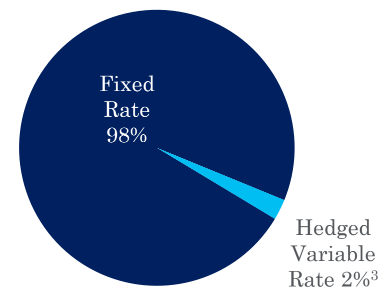
- The State transfers from General Funds to GOBRI in FY 2019 will average approximately $231 million a month following the issuance of the Bonds
  - General Funds State Source Revenues available to make General Revenue Fund debt service in FY 19 are projected to total approximately $2.7 billion per month on average providing 11.6x debt service coverage
- Transfers to the GOBRI fund were $3.7 billion in FY 2018
  - The cash balance in the GOBRI Fund was approximately $1.5 billion as of August 1, 2018
  - Approximately $2.8 billion in transfers from General Funds to GOBRI are estimated for FY 2018 with the balance expected to come from other State funds
- As of FY 2018, the State's total cash balance was $11.8 billion
- ***State will no longer have any variable rate bonds upon new issuance of the Series 2018 A Bonds***

Fiscal Year All Fund Cash Balances ($billions)[2]



General Obligation Debt Service (as of August 2018) ($billions)[1]





Current Par Outstanding[4]	
Bill Backlog Bonds	$6.0 b
Capital Improvement and Refunding Bonds	$13.8 b
Pension Bonds	$9.9 b
Total	**$29.7 b**

Source: Illinois Office of the Comptroller and the Governor's Office of Management and Budget. 1. Includes all par amounts paid or payable during Fiscal Year 2018. 2. Does not include Federal Trust Funds. Includes GOBRI. June 30, 2016 balances show an increase from FY 2015 due in part to the late enactment of FY 2016 appropriations for many State funds. 3. Rating-based unwind triggers on hedges all modified to sub-investment grade rating levels of below "BB+" by S&P or "Ba1" by Moody's. 4. Reflects par outstanding on August 1, 2018, taking into account principal paid off through August 1, 2018.

5. Timeline and Contacts

Tentative Transaction Timeline and Contacts

Date*	Event*
August 17th – 21st	Available for One-On-One Calls
August 22nd	Series of September 2018A&B Sale
September 5th	Closing

August 2018						
S	M	T	W	Th	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

September 2018						
S	M	T	W	Th	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

State of Illinois

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*Preliminary, subject to change