

State of Illinois

**\$900,000,000* General Obligation Bonds,
Taxable Build America Bonds Series of June 2010-5**

Investor Presentation

* Preliminary; subject to change



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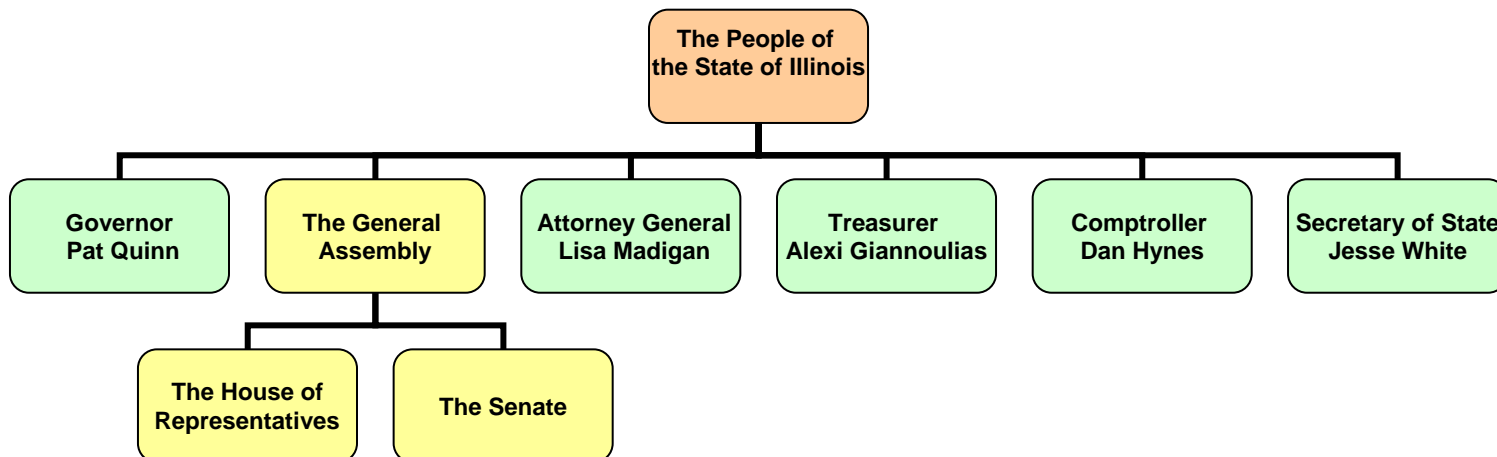
Patrick Brett

Director



State of Illinois: Form of Government:

- Sovereign State under the Constitution of the United States.
 - U.S. Constitution grants States significant power and control over activities within each State and its citizens.
- State revenues are controlled in form but not in level by the Constitution.
 - State must have a “flat” income tax.
 - Level of tax is determined by the Governor and the General Assembly.
- State Obligations are authorized by Section 9 of the Constitution and issued under the General Obligation Bond Act, which provides for significant protections and priorities.
 - Debt Service commands first dollars in monthly revenues.
 - The obligation to pay is not limited to any particular source of funds.
- State has effective, well-trained civil service exceeding 100,000 (including state run universities).





State of Illinois Overview:

- As a sovereign state of the U.S., Illinois has unlimited taxing power.
- 5th most populous state (12.9 million as of 2008).
- Illinois' largest city, Chicago, is the 3rd largest city in the U.S. (population of 8.3 million in the Chicago Metropolitan Area).
- World-class universities and laboratories -209 degree-granting institutions including University of Chicago, Northwestern, and the University of Illinois, Fermilab National Accelerator Laboratory, home to the world's largest proton-antiproton collider.



Rank	Country	2008 GDP (\$ in billions)
1	United States	\$14,264.600
2	Japan	4,923.761
3	China	4,401.614
4	Germany	3,667.513
5	France	2,865.737
6	United Kingdom	2,674.085
7	Italy	2,313.893
8	Russia	1,676.586
9	Spain	1,611.767
10	Brazil	1,572.839
11	Canada	1,510.957
12	India	1,209.686
13	Mexico	1,088.128
14	Australia	1,010.699
15	Korea	947.010
16	Netherlands	868.940
17	Turkey	729.443
18	State of Illinois	633.697
19	Poland	525.735
20	Indonesia	511.765
21	Belgium	506.392
22	Switzerland	492.595
23	Sweden	484.550
24	Saudi Arabia	481.631
25	Norway	456.226



The City of Chicago is the Economic and Cultural Capital of the Midwestern United States:

- The City of Chicago is the 3rd largest city in the U.S. and is the center of the State's economy.
- Second largest central business district in the United States.
- Home of the Chicago Board of Trade, Chicago Board Options Exchange, Chicago Stock Exchange, Chicago Mercantile Exchange and Federal Reserve Bank of Chicago.
- 33 Fortune 500 companies are headquartered in Illinois.
- Home of McCormick Place Convention Center, the largest convention center campus in North America.





Overview of Illinois Economy:

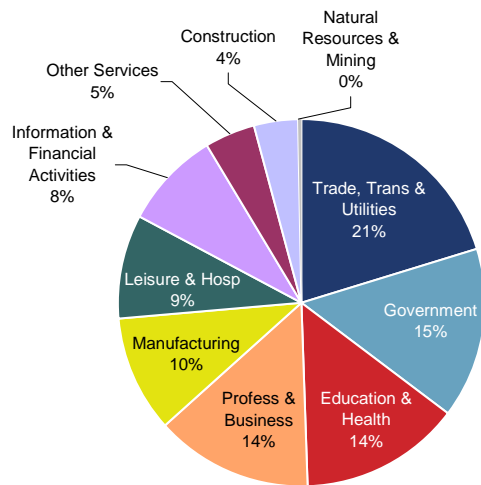
Breadth of Illinois Economy

- International markets contribute to Illinois’ diverse economy.
 - Foreign Direct Investment (FDI) is a major contributor to the economic vitality of the state.
 - Illinois leads the Midwestern US with more than 4,500 foreign establishments.
 - Center for global distribution and the third largest inter-modal port in the world.
- Illinois’ deep and diverse economy includes every major industry segment: agriculture, trade, transportation, manufacturing, professional and business services, government, education and healthcare.
- State economy mirrors the broader US economy and is well positioned for long term stability.

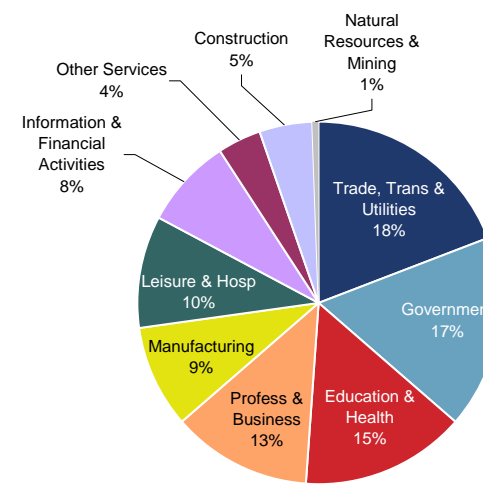
Annual Exports by US State¹

Rank	State	Annual 2009 Exports ¹
1	Texas	\$163,046,235,100
2	California	120,142,219,999
3	New York	57,320,623,000
4	Washington	51,739,397,146
5	Florida	46,919,556,478
6	Illinois	41,513,559,039

Illinois Non-Farm Payroll Jobs by Industry²



US Non-Farm Payroll Jobs by Industry²



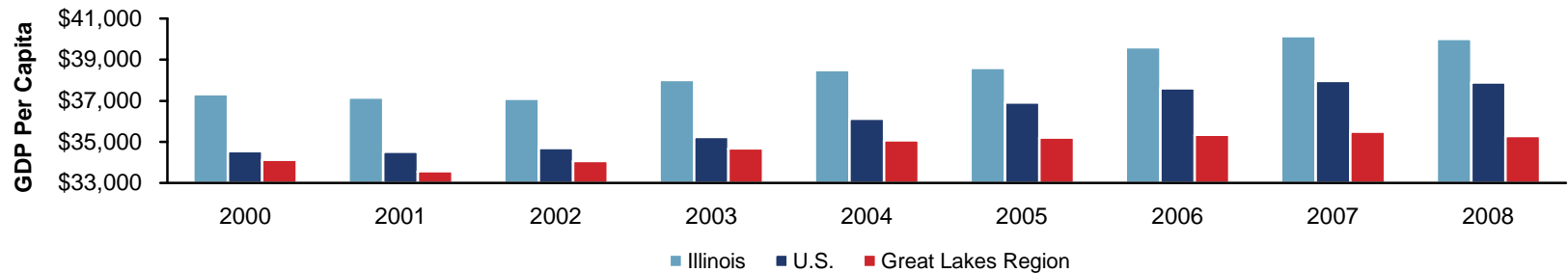
¹ Source: WISERTrade at HCC: State Exports by NAICS Database, 2009; <https://www.wisertrade.org/naics/ftbegin>.

² Source: Bureau of Labor Statistics; http://www.bls.gov/sae/eetables/sae_annavg109.pdf.

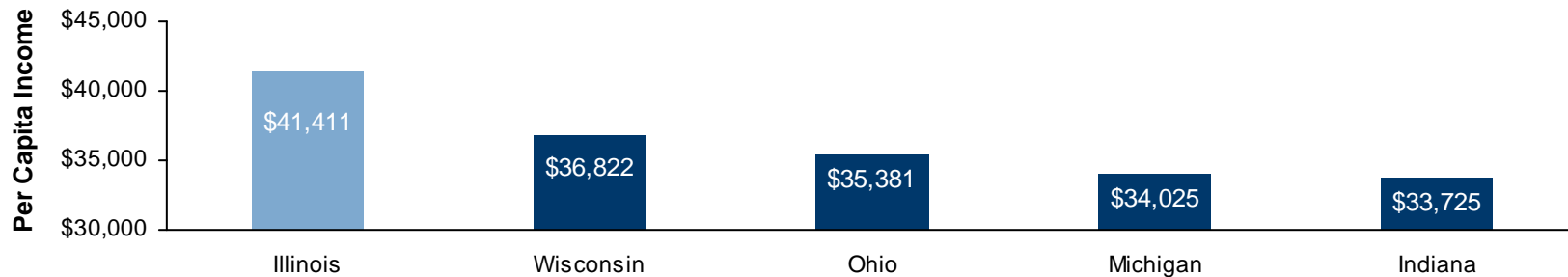


Illinois is the Wealthiest State in the Midwestern U.S.:

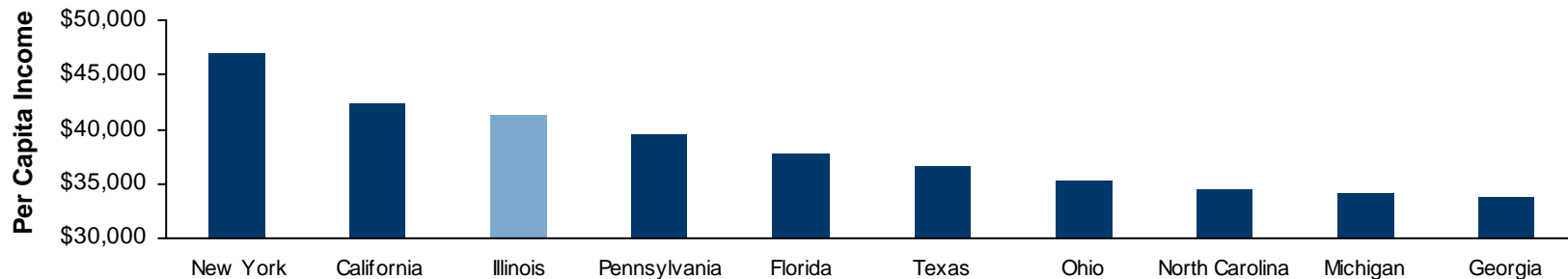
GDP Per Capita in Illinois Compares Favorably to the Region and Country



Per Capita Income Is the Highest in the Great Lakes Region



Per Capita Income Ranks Third Among the Ten Most Populous States



Source: Bureau of Economic Analysis. 2009 State GDP Per Capita data to be released November 18, 2010. Per Capita Income data as of 2009.



Credit History & Profile:

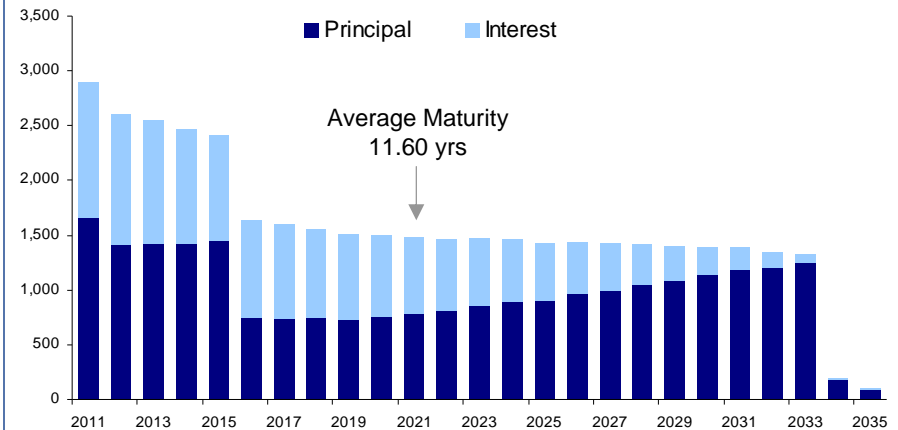
State General Obligation Debt: Since its establishment, the State has never failed to make a debt service payment on any general obligation bond.

History: Issuer of general obligation debt since the early 1900's, with perfect repayment history.¹

Amount Outstanding: The state has a total of \$24.5 billion of outstanding General Obligation debt, of which 100% is fixed-rate.²

Debt Service Structure: As an active issuer of 20-25yr debt with a level principal amortization, the state's aggregate debt structure has an average debt maturity of 11.60 yrs (see right).³

Illinois Annual General Fund Debt Service²
(\$ in billions)



Total Debt Outstanding ⁴		
Credit Type		Principal Outstanding
		\$ millions
General Obligation Bonds		
	Capital Improvement Bonds	\$ 7,778
	Refunding Bonds	\$ 3,116
	Pension Bonds	\$ 13,316
	Other	\$ 246
	Total GO Bonds Outstanding	\$ 24,456
	Build Illinois Sales Tax Revenue Bonds	\$ 2,494
	Total Outstanding Debt	\$ 26,950

¹ Source: Illinois Historic Preservation Society, <http://www.state.il.us/hpa/lib/ilchronology.htm>. Perfect repayment history from various publications and the Governor's Office of Management and Budget.

² Source: Outstanding Debt from State of Illinois Series 2010-3 Official Statement, pg 34. A portion of outstanding debt is synthetically fixed. Excludes \$2.49 billion of Build Illinois Bonds, which are secured by State Sales Taxes. As of April 20, 2010.

³ Source: Data from State of Illinois Series 2010-3 Official Statement. All General Fund-supported debt. Average maturity is simple weighted average of principal payments calculated by Citi. As of April 20, 2010.

⁴ Source: State of Illinois Governor's Office of Management and Budget



Benchmarking vs. Global Sovereigns:

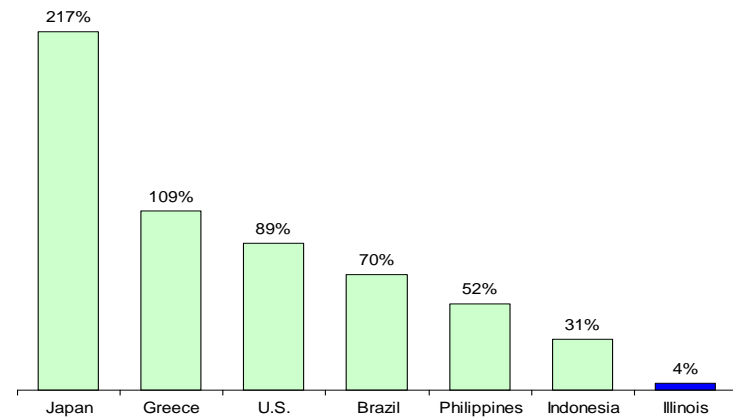
Illinois' Economy and political/civil institutions are comparable to those of the world's major industrialized nations. The state's debt load is less than that of other sovereigns.

Financial Metrics:

- **Total Debt Load:** At 3.9% of GDP, Illinois' G.O. debt load is a fraction of that of most global sovereigns (see top-right).¹
- **Debt Service Cost:** G.O. debt service is a small portion of annual expenditures; total debt service is only 6.0% of projected FY 2010 general fund revenues.²
- **Taxation:** The state has broad taxation powers, with no approval needed from the federal government. Over 5.9 million individual state personal tax returns filed – approximately 46% of the population.³

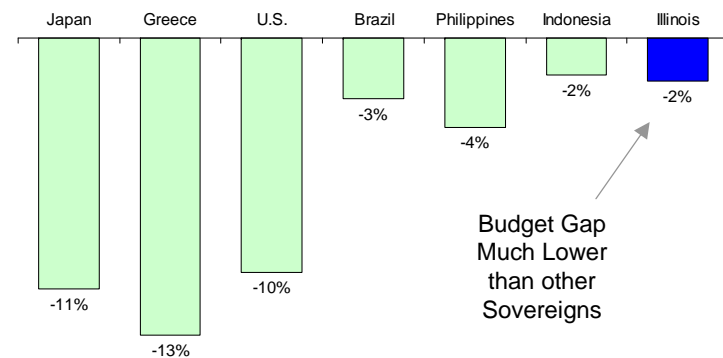
Financial Reporting: Robust, monthly and quarterly reporting of economic and financial data.⁴ Independent and credible Legislative Commission on Government Forecasting and Accountability verifies governmental budgeting estimates.

General Government Debt as % of GDP¹



Fiscal Balance as % of GDP⁵

Global FY 2009 Deficits vs. Illinois Current Budget Gap



¹ Source: Country data from IMF July 2009 Report, "State of Public Finances, a Cross Country Monitor". Debt profile for State is defined as General Obligation Debt divided by State GDP.

² Source: FY 2010 Debt Service from State of Illinois Series 2010-3 Official Statement, pg 40. FY 2010 General Fund Revenues from State of Illinois Proposed Executive Budget for FY 2011, Chapter 2-1.

³ Source: "Individual Income Tax by County: Tax Year 2008"; <http://www.revenue.state.il.us/AboutIdor/TaxStats/2008-IIT-Data-by-County.pdf>

⁴ Source: Data available from: Illinois State Controller's Office, <http://www.ioc.state.il.us/>; IL Department of Financial and Professional Regulation, <http://www.idpr.com/>; IL Treasurer, <http://www.treasurer.il.gov/>; IL Commission on Government Forecasting and Accountability, <http://www.ilga.gov/commission/cgfa2006/>

⁵ Source: GDP by State from the State of Illinois Governor's Office of Management and Budget. Budget Deficit from The Institute for Illinois' Fiscal Sustainability; "State of Illinois FY 2011 Recommended Operating and Capital Budgets", pg. 78.



The Five Pillars of Recovery:

- “We have five basic economic strategies to attack this fiscal crisis:
 1. Cutting spending.
 2. Strategic borrowing.
 3. Maximizing federal assistance.
 4. Creating new jobs that will put our people back to work.
 5. Improving state revenues.”*

- **“It will take all five of these strategies to solve our fiscal crisis.”***

*Governor’s Budget Speech, March 10, 2010



FY2011 Budget - Comparative Operating Statement

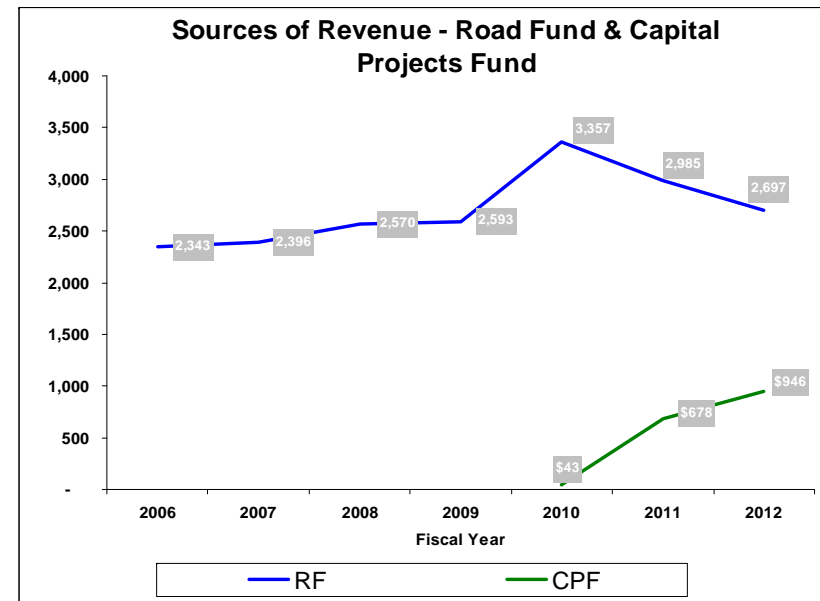
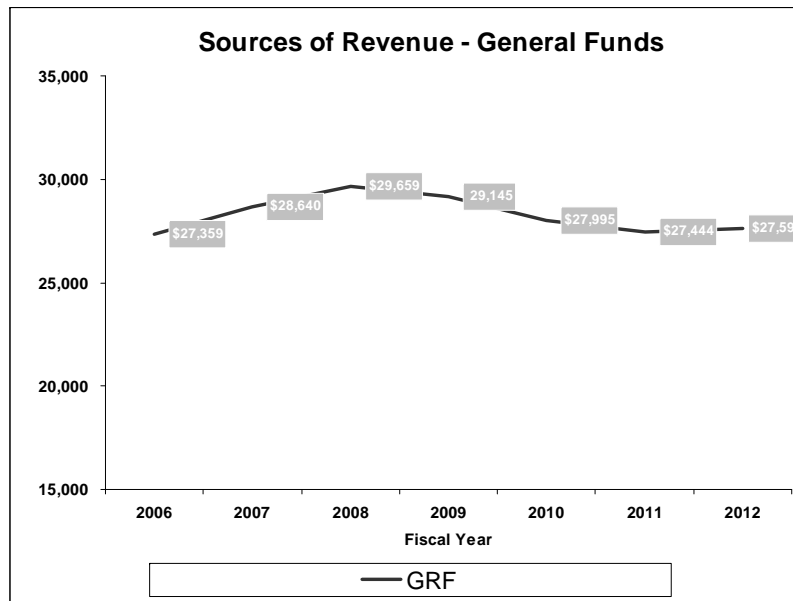
(\$ in millions):

	FY2008	FY2009	FY2010 Revised	FY2011 Enacted Budget
Revenues				
All State Revenues	\$ 22,944	\$ 20,984	\$ 19,334	\$ 19,712
Federal Revenues	\$ 4,815	\$ 6,567	\$ 5,920	\$ 6,227
Transfers In	\$ 1,900	\$ 1,593	\$ 1,836	\$ 1,716
Total Resources	\$ 29,659	\$ 29,144	\$ 27,090	\$ 27,655
Spending				
Net Appropriations before Pension & Transfers	\$ 25,344	\$ 27,474	\$ 25,326	\$ 24,940
Pension Contributions	\$ 1,810	\$ 2,486	\$ -	\$ 4,157
Net Transfers Out	\$ 2,085	\$ 1,897	\$ 2,242	\$ 1,823
Debt Service Pension Bonds and Notes	\$ 467	\$ 466	\$ 733	\$ 1,754
All Other Debt Service	\$ 650	\$ 636	\$ 564	\$ 845
Total Spending	\$ 30,356	\$ 32,959	\$ 28,865	\$ 33,519
Other Financial Sources				
Pension Obligation Bonds				\$ 3,700
Interfund Borrowing				\$ 964
Sale of Tobacco MSA Revenues				\$ 1,200
Budget Basis Operating Income	\$ (697)	\$ (3,815)	\$ (1,775)	\$ -
Notes:				
1. Transfers In include Lottery, Gaming and other designated funds with excess cash balances.				
2. FY2010 do not reflect Pension Contributions as FY2010 contributions were financed through issuance of \$3.466 billion in Pension Obligation five year notes.				
3. Transfers Out include transfers to local governments, public transportation , etc.				



Structural Strengths – Diverse Sources of Revenue:

- Debt service in Illinois is supported by three distinct revenue sources:
 - **General Revenue Funds-** supports General Obligation Bonds. Major sources of funds are Income Taxes (Personal and Corporate), Sales Tax and Fees.
 - **Road Fund-** supports all General Obligation Bonds used for transportation related projects. Major source of funds are fees and taxes on license plates, gasoline and transportation related services.
 - **Capital Project Fund-** supports all new capital bonds issued under the Illinois Jobs Now! capital program. Major sources of funds are increased fees on license plates, increased taxes on liquor and candy, video gaming and outsourcing of the Lottery management.





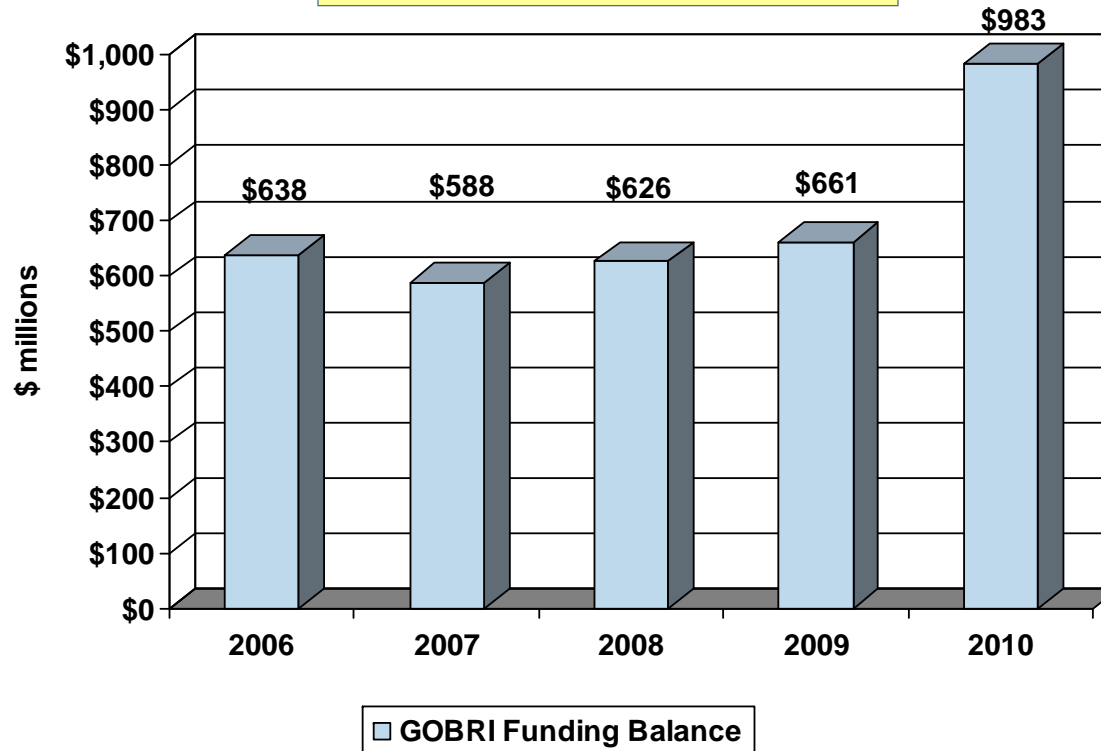
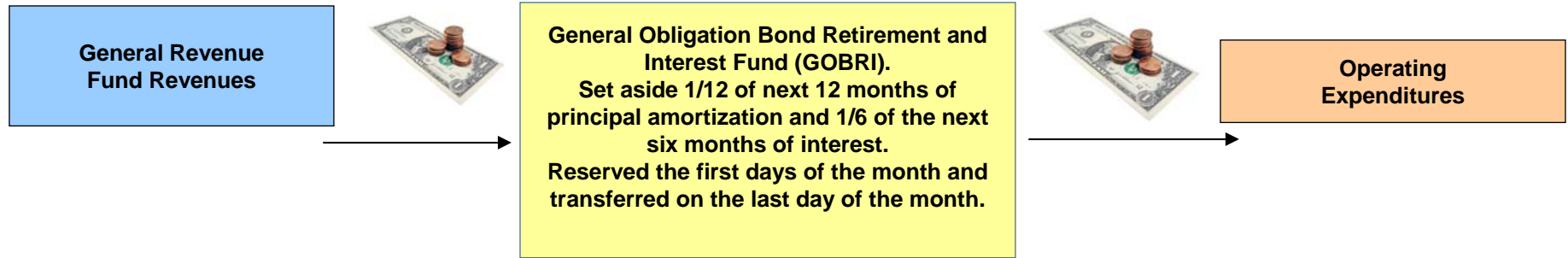
Structural Strengths - The State's General Obligation Bond Act provides significant protections for Illinois bondholders:

- **The bonds being offered are general obligations of the State for which its full faith and credit are pledged.**
 - This is the strongest security the State can provide investors for the repayment of debt service.
- **The obligation to pay is not limited to any particular source of funds and the state has unlimited taxing powers.**
 - The State can draw from all State funds in the State treasury if needed to pay debt service on GO bonds.
- **GO Bond Act constitutes an irrevocable and continual appropriation for the payment of debt service.**
- **Bond Act requires advance set-aside of debt service funds.**
 - Dedicated account typically maintains significant rolling balances in General Obligation Bond Retirement and Interest (GOBRI) Fund.
 - Debt service requirements are deposited on a monthly basis into GOBRI, from first available State revenues.
 - The BAB Subsidy Payments will not be pledged to secure repayment of the Bonds. However the State intends to deposit the Subsidy Payments in the GOBRI Fund which will offset amounts required to be deposited therein.
- **The Illinois Constitution prohibits action by the General Assembly that would impair or result in any changes in the General Obligation Bond Act adverse to the interests of bondholders.**
- **Under present State of Illinois and the U.S. Constitution, the State cannot file for bankruptcy.**





Structural Strengths - Flow of Funds:



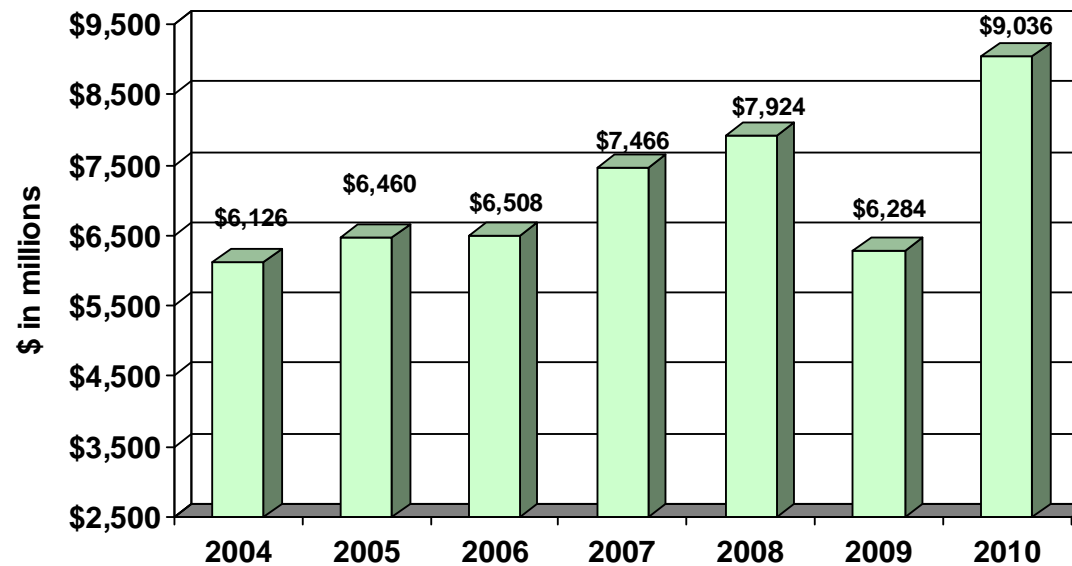
Notes: 1. 2006-2009 as of Fiscal year end. 2010 as of April month end.
2. Funding in 2010 includes prefunding for first short term borrowing maturity in May/June.



Structural Strengths – On Going Appropriations:

- At the Direction of the Governor, the State Treasurer and Comptroller are directed to use all state moneys in the State Treasury to satisfy the repayment of debt.

Cash Balances- All State Funds



Note: All data as of April Month End.



Demonstrating the Will to Govern - Meaningful Pension Reform

- Meaningful reform of the Pension Fund Systems:
 - The importance of improved communication channels.
- Approved by a strong bi-partisan vote with the minority party leader in the Senate co-sponsoring the bill.
- Reform generates \$220 billion in savings over the next 40 years with savings in each year starting in 2011.

SB 1946 PUBLIC PENSION REFORMS

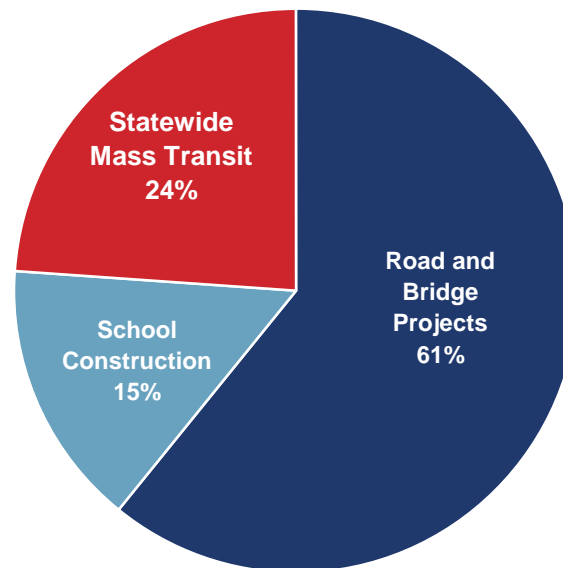
	CURRENT	NEW
RETIREMENT AGE	60 (WITH 8 YEARS OF SERVICE)	67 (WITH 10 YEARS OF SERVICE)
ANNUAL COLA	3% (COMPOUNDED)	1/2 OF CPI NOT TO EXCEED 3% (SIMPLE INTEREST)
EARNINGS & BENEFIT CAP	\$240,000	\$106,800
DOUBLE DIPPING	PERMITTED	PROHIBITED
FINAL AVERAGE SALARY	HIGHEST 4 YEARS OF LAST 10	HIGHEST 8 YEARS OF LAST 10



Demonstrating the Will to Govern: Illinois Jobs Now!

- Working together, the Governor and the General Assembly passed the first capital bill in a decade.
- The 2010 Capital Budget authorizes the “Illinois Jobs Now!” investment program to advance economic development through a \$31 billion capital program focused on road, bridge, mass transit and school construction projects.
- The General Assembly and the Governor agreed upon and enacted new revenue sources to support bonds issued under this program. These new sources are estimated to generate \$500 million to \$1 billion in new revenues per year supporting between \$5 and \$10 billion in new capital bonds.

Components of FY 2010 Illinois Jobs Now





Demonstrating the Will to Govern: Budget and Management Reforms

- The Emergency Budget Act for Fiscal 2011 mandates significant changes in the way the State of Illinois will operate its fiscal affairs in the future:
 - Gives the Governor the authority to create reserves in all State agencies.
 - Requires in FY2012 a three year budget forecast from the Commission of Government Forecasting and Accountability.
 - Create “Inter-fund Borrowing”.
 - State currently has \$9 billion in cash.
 - Limits borrowing:
 - Individual fund cannot be reduced below its next 12 month appropriations/expenditures.
 - All funds, taken together, cannot be reduced below the next 12 months debt service, in total, for all outstanding long and short term debt.
 - Creates Management by Objective.
 - Programs/Agencies that fail to meet objectives can be eliminated.



Conclusion:

Does the State of Illinois have the **economic engine** to support this bond issue?

✓ **YES!**

- Illinois has a strong economic base that mirrors the national economy.
- Illinois is one of the world's largest, most diverse economies.
- Illinois is a sovereign state with unlimited taxing powers.

Are these bonds **supported by statute** and structure?

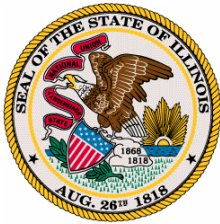
✓ **YES!**

- The General Obligation bonds are the strongest security the State can issue.
- Sources of repayment are not limited to any one revenue stream.
- The State, by statute, can draw from any and all funds in the treasury to pay debt service.
- Statutory set aside provisions ensure that general fund revenues are deposited on a monthly basis in a dedicated fund for debt service.

Does the State have the **“Will to Govern”** needed to address its challenges?

✓ **YES!**

- The active, on going, dialog between the Executive and Legislative branches of State government demonstrate that there is “will” to work through the political process.
 - Passed the most far reaching reform of the pension system in State history.
 - Passed the first and largest capital bill in 10 years and based its bonds on new sources of revenue.
 - Passed significant changes in the way the State will execute its budgets going forward.



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