**NEW ISSUE - BOOK-ENTRY ONLY** **RATINGS:** Moody's: Aa3 (municipal); Aaa (corporate equivalent)
S&P: AA
Fitch: AA
See "THE OFFERING-RATINGS" herein.

*In the opinion of Mayer, Brown, Rowe & Maw and Pugh, Jones & Johnson, P.C., Co-Bond Counsel, interest on the Bonds is not excludable from gross income for federal income tax purposes. Co-Bond Counsel are further of the opinion that under existing law, interest on the Bonds is not exempt from present State of Illinois income taxes. See "THE OFFERING-TAX MATTERS" herein.*

# $10,000,000,000
# STATE OF ILLINOIS
## GENERAL OBLIGATION BONDS
## Pension Funding Series of June 2003 (Taxable)

**Dated: Date of Delivery** **Due: June 1, as shown on inside front cover**

The State of Illinois General Obligation Bonds, Pension Funding Series of June 2003 (Taxable) (the "Bonds"), will be issued as fully registered book-entry bonds in the denominations of $5,000 or any integral multiple thereof. The Bonds, when issued, will be registered under a global book-entry system operated by Cede & Co., as a nominee of The Depository Trust Company ("DTC"), New York, New York, in the United States. See "APPENDIX C-GLOBAL BOOK-ENTRY SYSTEM." The Bonds shall bear interest at the rates as shown on the inside front cover. Interest on the Bonds will be payable June 1 and December 1 of each year, commencing December 1, 2003. Details of payment of the Bonds are described herein.

The Bonds are not subject to optional redemption prior to their maturity. The Bonds are subject to mandatory redemption prior to their maturity as described in this Official Statement under "THE OFFERING-REDEMPTION."

The Bonds are direct, general obligations of the State of Illinois (the "State"), secured by a pledge of its full faith and credit. The Bonds are issued under the General Obligation Bond Act of the State of Illinois, as amended, to fund or reimburse a portion of the obligations of the State to the State's retirement systems, to pay capitalized interest on the Bonds, and to pay costs of financing, including, but not limited to, the cost of issuance of the Bonds.

The Bonds are offered globally for sale in those jurisdictions in the United States, Europe and Asia and elsewhere where it is lawful to make such offers. See "THE OFFERING-UNDERWRITING." The State has filed an application to list the Bonds on the Luxembourg Stock Exchange. If such application is approved, trading of the Bonds on the Luxembourg Stock Exchange is expected to commence within a 30-day period after the initial delivery of the Bonds.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Mayer, Brown, Rowe & Maw, Chicago, Illinois, and Pugh, Jones & Johnson, P.C., Chicago, Illinois, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Winston & Strawn, Chicago, Illinois, and Burke Burns & Pinelli, Ltd., Chicago, Illinois, Co-Underwriters' Counsel. It is expected that the Bonds will be available for delivery through the facilities of DTC and through the Euroclear System and Clearstream, Luxembourg, in Europe, on or about June 12, 2003. See "APPENDIX C-GLOBAL BOOK-ENTRY SYSTEM."

***Joint Book-Running Managers***

**Bear, Stearns & Co. Inc.** **UBS PaineWebber Inc.**

***Co-Senior Managers***

**ABN AMRO Financial Services Inc.** **Citigroup** **Goldman, Sachs & Co.**

***Co-Managers***

**Loop Capital Markets, LLC** **Merrill Lynch & Co.**
**RBC Dain Rauscher** **Ramirez & Co., Inc.** **Siebert Brandford Shank & Co., LLC**

**Apex Pryor Securities** **Cabrera Capital Markets Inc.**
**First Midstate Incorporated** **Melvin Securities, L.L.C.**
**SBK-Brooks Investment Corp.** **Wachovia Bank, National Association**

June 5, 2003

# MATURITY SCHEDULE

# $10,000,000,000
# STATE OF ILLINOIS
# GENERAL OBLIGATION BONDS
# Pension Funding Series of June 2003 (Taxable)

## $ 600,000,000 SERIAL BONDS

| Maturity (June 1) | Principal Amount | Interest Rate | Yield | CUSIP | ISIN | Euroclear and Clearstream Luxembourg Common Code |
|---|---|---|---|---|---|---|
| 2008 | $ 50,000,000 | 2.50% | 2.522% | 452151KV4 | US452151KV43 | 17044699 |
| 2009 | 50,000,000 | 2.80 | 2.822 | 452151KW2 | US452151KW26 | 17044702 |
| 2010 | 50,000,000 | 3.30 | 3.324 | 452151KX0 | US452151KX09 | 17044753 |
| 2011 | 50,000,000 | 3.55 | 3.574 | 452151KY8 | US452151KY81 | 17044796 |
| 2012 | 100,000,000 | 3.75 | 3.754 | 452151KZ5 | US452151KZ56 | 17044826 |
| 2013 | 100,000,000 | 3.85 | 3.874 | 452151LA9 | US452151LA96 | 17044907 |
| 2014 | 100,000,000 | 3.95 | 3.974 | 452151LB7 | US452151LB79 | 17044966 |
| 2015 | 100,000,000 | 4.05 | 4.074 | 452151LC5 | US452151LC52 | 17045059 |

## $ 9,400,000,000 TERM BONDS

| | | | CUSIP | ISIN | Euroclear and Clearstream Luxembourg Common Code |
|---|---|---|---|---|---|
| $ 375,000,000 | 4.35% | Term Bonds due June 1, 2018-Price 99.955% | 452151LD3 | US452151LD36 | 17045245 |
| $1,375,000,000 | 4.95% | Term Bonds due June 1, 2023-Price 99.872% | 452151LE1 | US452151LE19 | 17045270 |
| $7,650,000,000 | 5.10% | Term Bonds due June 1, 2033-Price 100.00% | 452151LF8 | US452151LF83 | 17045300 |

# STATE OF ILLINOIS

**Rod R. Blagojevich,** ***Governor***

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

**IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS 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 the offering, 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 Official Statement to statues, 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 herein. This Official Statement is submitted in connection with the sale of the General Obligation Bonds, Pension Funding Series of June 2003 (Taxable), referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.**

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# $10,000,000,000

# STATE OF ILLINOIS

# GENERAL OBLIGATION BONDS

## Pension Funding Series of June 2003 (Taxable)

## INTRODUCTION

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

**General**

The purpose of this Official Statement (which includes the cover page, the inside cover page and the Appendices hereto) is to set forth certain information concerning the State of Illinois (the "**State**") and the State's $10,000,000,000 aggregate original principal amount of General Obligation Bonds, Pension Funding Series of June 2003 (Taxable) (the "**Bonds**"). The Bonds are being issued to fund or reimburse a portion of the State's obligation to make contributions to the Retirement Systems (as defined herein), to pay capitalized interest on the Bonds and to pay costs of financing, including, but not limited to, the cost of issuance of the Bonds, all as authorized by Section 7.2 of the General Obligation Bond Act of the State, as amended (30 ILCS 330/1 *et seq.*) (the "**Bond Act**"). See "PLAN OF FINANCE-ISSUANCE OF THE BONDS AND ALLOCATION OF PROCEEDS."

Illinois is a sovereign state of the United States and issuer of debt securities. The State's powers and functions are subject to the Illinois Constitution of 1970 ("**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-ORGANIZATION" herein.

The State has diversified economic strengths. Measured by per capita personal income, the State ranks third among the ten most populous states and ninth among all states. Illinois ranks eighth 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 U.S. and the headquarters of many of the nation's major corporations and financial institutions. See "STATE OF ILLINOIS," "STATE FINANCIAL INFORMATION" and "APPENDIX A-ECONOMIC DATA" for further information regarding the State.

**Authority for Issuance**

The Bond Act, as amended by Public Act 93-2, which became effective as of April 7, 2003 ("**Public Act 93-2**"), empowers the State to issue and sell up to $10 billion of general obligation bonds of the State for the purpose of funding or reimbursing a portion of the State's contributions to the following retirement systems: the State Employees' Retirement System of Illinois, the Teachers' Retirement System of the State of Illinois, the State Universities Retirement System, the Judges Retirement System of Illinois, and the General Assembly Retirement System (collectively, the "**Retirement Systems**" and, individually, a "**Retirement System**"). See "PLAN OF FINANCE", "AUTHORITY FOR ISSUANCE" and "PENSION SYSTEMS" herein for further information regarding the State's authority to issue the Bonds and its obligations regarding the Retirement Systems.

In addition to the Bonds, the Bond Act authorizes the State to issue and sell direct, general obligations of the State (the "**GO Bonds**"), in the aggregate amount of approximately $17.7 billion (excluding refunding bonds). As of April 30, 2003, GO Bonds were outstanding in an aggregate principal amount of approximately $8.4 billion. See "INDEBTEDNESS-GENERAL OBLIGATION BONDS."

**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 issued under such act, including the Bonds, as it comes due and for the punctual payment of the principal thereof at maturity, or any earlier redemption date, and 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. The assets of the Retirement Systems do not secure, and are not available for payment of, the Bonds. See "THE OFFERING-SECURITY."

**Tax Matters**

In the opinion of Mayer, Brown, Rowe & Maw and Pugh, Jones & Johnson, P.C., Co-Bond Counsel, interest on the Bonds is not excludable from gross income for federal income tax purposes. Co-Bond Counsel are further of the opinion that under existing law, interest on the Bonds is not exempt from present State of Illinois income taxes. See "THE OFFERING-TAX MATTERS."

# PLAN OF FINANCE

## STATE RETIREMENT SYSTEMS

Pursuant to the Illinois Pension Code, as amended (the "**Pension Code**"), the State is responsible for funding employer contributions of the Retirement Systems. The State currently makes payments to the Retirement Systems on an annual basis, consisting of (i) an accrued actuarial liability contribution representing pension benefits earned in prior years which, pursuant to standard actuarial practices, are not fully funded (referred to herein as the "**UAAL**"), and (ii) a contribution representing the State's obligation for its share of the costs of various current benefits. As of June 30, 2002 (the most recently completed fiscal year of the State), the Retirement Systems had an aggregate membership of 311,707 active members, 168,341 inactive members entitled to benefits and 147,956 retired members and beneficiaries. As of June 30, 2002, based upon the most recent available actuarial valuation of the Retirement Systems, the actuarially determined accrued liabilities of the Retirement Systems were approximately $75.2 billion, the fair market value of their assets was approximately $40.3 billion, and the aggregate UAAL with respect to the Retirement Systems was approximately $34.9 billion. For further information regarding the Retirement Systems and the State's obligations regarding the Retirement Systems, see "PENSION SYSTEMS."

## STATE LAW REQUIREMENTS FOR RETIREMENT SYSTEMS FUNDING

State law regulates the State's funding of the Retirement Systems. Public Act 88-593, effective July 1, 1995, created an actuarially-based funding method for the Retirement Systems with an ultimate goal of achieving 90 percent funding of Retirement System liabilities. Pursuant to this law, the State's percent of payroll contribution to each Retirement System began increasing in fiscal year 1996 and is scheduled to increase each year through fiscal year 2010. In fiscal years 2011 through 2045, the State's contribution will level off to an equal percentage of payroll as necessary to amortize 90 percent of the Retirement Systems' unfunded liabilities by the end of the 50-year period (1995 to 2045). The legislation also provided for continuing appropriations to the Retirement Systems beginning in fiscal year 1996. This provision requires the State to provide contributions to the Retirement Systems without being subject to the annual appropriation process. In the event that the General Assembly fails to appropriate the amounts certified by the Retirement Systems, Public Act 88-593 provides for payments to be made by the Comptroller of the State (the "**Comptroller**"), and the Treasurer of the State (the "**Treasurer**"), in amounts sufficient to meet the requirements of the Act.

## ISSUANCE OF THE BONDS AND ALLOCATION OF PROCEEDS

In April 2003, pursuant to Public Act 93-2, the State was authorized to issue and sell the Bonds for the purpose of making contributions to, and funding the UAAL of, the Retirement Systems. The net proceeds of the Bonds will be used to (i) reimburse the State's General Revenue Fund for a portion of the contributions made to the Retirement Systems for the last quarter of the State's fiscal year 2003, (ii) reimburse the State's General Revenue Fund for the State's contributions to the Retirement Systems for the State's fiscal year 2004, and (iii) fund a portion of the UAAL. The net proceeds of the Bonds will not be sufficient to fully fund the UAAL. For further information regarding the funding of the Retirement Systems, see "PENSION SYSTEMS."

Pursuant to Public Act 93-2, the State is required to deposit into the Pension Contribution Fund (the "**Pension Contribution Fund**"), a newly created fund held in the State Treasury, the proceeds from the sale of the Bonds less an aggregate amount of proceeds representing up to 12 months' capitalized interest on the Bonds and the aggregate amount of proceeds used to pay expenses of the offering of the Bonds. Proceeds representing capitalized interest will be deposited directly into the capitalized interest account of the General Obligation Bond Retirement and Interest Fund (described below in "SECURITY"). Out of the net proceeds of the Bonds deposited into the Pension Contribution Fund, the State is obligated to reserve $300 million for transfer to its General Revenue Fund, representing a portion of the required State contributions to the Retirement Systems for the last quarter of the State's fiscal year 2003, plus the sum of $1.86 billion, representing the required State contributions to the Retirement Systems for the State's fiscal year 2004 (collectively, the "**Reimbursement Amounts**"). Upon the deposit of such $300 million in the Pension Contribution Fund, the State shall immediately transfer such moneys to its General Revenue Fund. Whenever any payment of State contributions for fiscal year 2004 is made to any Retirement System, the State will transfer from the Pension Contribution Fund to its General Revenue Fund an amount equal to the amount of that payment. If the Reimbursement Amounts exceed the amount of required State contributions to the Retirement Systems for fiscal year 2004, the State will continue to make transfers to its General Revenue Fund based on the State's fiscal year 2005 required payments until the entire Reimbursement Amounts have been transferred.

Public Act 93-2 further mandates that all net proceeds of the Bonds deposited into the Pension Contribution Fund, other than the Reimbursement Amounts described above, will be transferred by the State to the Retirement Systems to reduce the UAAL. The amount of the transfer to each Retirement System will constitute a portion of the total transfer amount that is the same as such Retirement System's portion of the UAAL of the Retirement Systems as a whole, as most recently determined by the Bureau of the Budget (the "**Bureau**"). The Bureau is required under Public Act 93-2 to complete the allocations among the Retirement Systems as described in the preceding sentence and notify each such Retirement System and the Comptroller within 15 days after net proceeds of the Bonds in excess of the Reimbursement Amounts have been deposited into the Pension Contribution Fund. Thereafter, each Retirement System shall submit a voucher to the Comptroller for its allocation and such allocated amount shall be paid from the Pension Contribution Fund.

Although a portion of the net proceeds of the Bonds will be used to fund a portion of the UAAL, the assets of the Retirement Systems do not secure, and are not available for payment of, the Bonds. See "THE OFFERING-SECURITY."

### FUTURE STATE CONTRIBUTIONS TO RETIREMENT SYSTEMS

Following the issuance of the Bonds pursuant to Public Act 93-2, the State's contributions to the Retirement Systems from the General Revenue Fund for fiscal year 2005 and thereafter will be decreased by the debt service payments for such fiscal year on the then outstanding Bonds. The State's contribution for fiscal year 2005 and for each fiscal year thereafter with respect to each Retirement System will not exceed an amount equal to (i) the amount of the required State contribution that would have been calculated under the provisions of the Pension Code if such Retirement System had not received its allocation of net proceeds of the Bonds (other than Reimbursement Amounts), as described in the proceeding paragraph, minus (ii) that portion of the State's total debt service payments for that fiscal year on the Bonds that is the same as such Retirement System's portion of the total net proceeds transferred to the Retirement Systems as a whole (other than Reimbursement Amounts).

The General Assembly may enact legislation from time to time to modify the computation methodology for purposes of calculating the UAAL. For further information regarding the current legal requirements governing the State's obligations to the Retirement Systems, see "PENSION SYSTEMS."

## AUTHORITY FOR ISSUANCE

The Bond Act, as amended by Public Act 93-2, authorizes the State to issue and sell GO Bonds, including the Bonds. The Bond Act transferred the authority from and consolidated into a single bond act the following bond acts: the Capital Development Bond Act of 1972, the Transportation Bond Act, the School Construction Bond Act, the Anti-Pollution Bond Act, and the Illinois Coal and Energy Development Bond Act. These bond acts were amended to direct that all future GO Bonds are to be issued under the Bond Act. The Bonds constitute an installment of non-refunding, multi-purpose State of Illinois GO Bonds under the Bond Act.

In addition to the Bonds, the Bond Act authorizes the State to issue and sell multi-purpose GO Bonds in the aggregate amount of $17,658,149,369, excluding refunding bonds but including the tobacco securitization general obligation bonds referred to below, for capital purposes in the amounts listed below:

- $7,320,235,369 for capital facilities within the State.
- $5,313,399,000 for use by the Illinois Department of Transportation.
- $3,150,000,000 for grants to school districts.
- $461,315,000 for Anti-Pollution purposes.
- $663,200,000 for Coal and Energy Development purposes.

See "INDEBTEDNESS-GENERAL OBLIGATION BONDS" for a description of the authorized and previously issued GO Bonds under the Bond Act. The Bond Act further authorizes the amount of $2,839,025,000, at any time and from time to time outstanding, for the purpose of refunding any outstanding GO Bonds of the State.

The Bond Act also authorizes the State to issue and sell "tobacco securitization general obligation bonds" in the amount of $750,000,000 for general operating purposes. The authorization to issue such bonds expires on June 30, 2003. The State does not anticipate issuing such bonds.

The State is also authorized to issue additional forms of debt, including short-term certificates. See "INDEBTEDNESS" herein. Short-term certificates are authorized pursuant to the Illinois Constitution and the Short Term Borrowing Act of the State, as amended (the "**Short Term Borrowing Act**"), and 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 such short-term certificates. See "INDEBTEDNESS-SHORT TERM DEBT" for a further discussion of the authorized and previously issued short term certificates under the Short Term Borrowing Act.

## THE OFFERING

### DESCRIPTION OF THE BONDS

The Bonds will bear interest from their issue date and will mature on June 1 of each of the years and in the amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds is payable semiannually on the first day of June and December of each year, beginning on December 1, 2003, at the rates per annum set forth on the inside cover page of this Official Statement. Interest payable on a date which is not a business day (i.e., a Saturday, Sunday or any other day which is a legal holiday in the State) shall be payable on the immediately succeeding business day.

Purchases of the Bonds will be made in denominations of $5,000 principal amount or any integral multiple thereof, and will be 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, and interest on, the Bonds will be paid by the Treasurer, as bond registrar and paying agent, 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.

### REDEMPTION

The Bonds are not subject to optional redemption prior to their maturity.

#### Mandatory Sinking Fund Redemption

The Bonds maturing on June 1, 2018 (the "**2018 Term Bonds**"), in the aggregate principal amount of $375,000,000, are subject to mandatory sinking fund redemption, *pro rata* among holders of the 2018 Term Bonds, at a redemption price equal to the par amount of the Term Bonds so redeemed plus accrued interest to the redemption date. The sinking fund installments set forth below represent the amount of principal that the State is required to pay on June 1 (the mandatory sinking fund redemption date) in each of the following years.

| Year | Sinking Fund Installment |
|---|---|
| 2016 | $ 100,000,000 |
| 2017 | 125,000,000 |
| 2018* | 150,000,000 |

*Maturity

The Bonds maturing on June 1, 2023 (the "**2023 Term Bonds**"), in the aggregate principal amount of $1,375,000,000, are subject to mandatory sinking fund redemption, *pro rata* among holders of the 2023 Term Bonds, at a redemption price equal to the par amount of the Term Bonds so redeemed plus accrued interest to the redemption date. The sinking fund installments set forth below represent the amount of principal that the State is required to pay on June 1 (the mandatory sinking fund redemption date) in each of the following years.

| Year | Sinking Fund Installment |
|---|---|
| 2019 | $ 175,000,000 |
| 2020 | 225,000,000 |
| 2021 | 275,000,000 |
| 2022 | 325,000,000 |
| 2023* | 375,000,000 |

*Maturity

The Bonds maturing on June 1, 2033 (the "**2033 Term Bonds**" and, together with the 2018 Term Bonds and the 2023 Term Bonds, the "**Term Bonds**"), in the aggregate principal amount of $7,650,000,000, are subject to mandatory sinking fund redemption, *pro rata* among holders of the 2033 Term Bonds, at a redemption price equal to the par amount of the Term Bonds so redeemed plus accrued interest to the redemption date. The sinking fund installments set forth below represent the amount of principal that the State is required to pay on June 1 (the mandatory sinking fund redemption date) in each of the following years.

| Year | Sinking Fund Installment |
|---|---|
| 2024 | $ 450,000,000 |
| 2025 | 525,000,000 |
| 2026 | 575,000,000 |
| 2027 | 625,000,000 |
| 2028 | 700,000,000 |
| 2029 | 775,000,000 |
| 2030 | 875,000,000 |
| 2031 | 975,000,000 |
| 2032 | 1,050,000,000 |
| 2033* | 1,100,000,000 |

*Maturity

Giving effect to the mandatory sinking fund redemption set forth above, the average life of the 2018 Term Bonds, calculated from June 12, 2003, will be approximately 14.10 years, the average life of the 2023 Term Bonds, calculated from June 12, 2003, will be approximately 18.33 years, and the average life of the 2033 Term Bonds, calculated from June 12, 2003, will be approximately 26.28 years.

**Selection of Bonds For Mandatory Sinking Fund Redemption**

Mandatory sinking fund redemption payments on the Term Bonds of a maturity will be made on a "pro rata" basis to each holder in whose name such Term Bond is registered at the close of business on the 15th day immediately preceding the applicable redemption date. "Pro rata" means, in connection with any mandatory sinking fund redemption, with respect to the allocation of amounts to the payment of sinking fund installments required to be made on Term Bonds of any maturity, the application of a fraction to such amounts, the numerator of which is equal to the amount of such Term Bonds of such maturity held by a holder of Term Bonds of such maturity, and the denominator of which is equal to the total amount of such Term Bonds of such maturity then outstanding.

So long as there is a securities depository for the Bonds, there will be only one registered owner and neither the State nor the Bond Registrar will have responsibility for prorating partial redemptions among beneficial owners of the Term Bonds. See "APPENDIX C-GLOBAL BOOK-ENTRY SYSTEM."

Notice of any mandatory sinking fund redemption of Bonds will be sent by certified or first-class mail not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption to the registered owner of each Bond (or portion thereof) to be redeemed at the address shown on the registration books of the State maintained by the Bond Registrar, or at such other address as is furnished in writing by such registered owner to the Bond Registrar.

**Partial Redemption**

Upon surrender of any bond redeemed in part only, the Bond Registrar shall execute and deliver to the holder thereof a new Bond or Bonds of like series, tenor and maturity and of authorized denominations equal to the unredeemed portion of the Bond surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such holder, and the State shall be released and discharged thereupon from all liability to the extent of such payment.

**DEBT SERVICE SCHEDULE**

The following table shows the scheduled principal (at maturity or by mandatory sinking fund redemption), interest and total fiscal year debt service due on the Bonds. For total debt service on GO Bonds, including the Bonds, see "INDEBTEDNESS-Table 14-MATURITY SCHEDULE-GENERAL OBLIGATION BONDS."

**Debt Service on the Bonds**

| Fiscal Year Ending June 30 | Principal | Interest | Total Fiscal Year Debt Service |
|---|---|---|---|
| 2004 | $ - | $ 481,038,333 | $ 481,038,333 |
| 2005 | - | 496,200,000 | 496,200,000 |
| 2006 | - | 496,200,000 | 496,200,000 |
| 2007 | - | 496,200,000 | 496,200,000 |
| 2008 | 50,000,000 | 496,200,000 | 546,200,000 |
| 2009 | 50,000,000 | 494,950,000 | 544,950,000 |
| 2010 | 50,000,000 | 493,550,000 | 543,550,000 |
| 2011 | 50,000,000 | 491,900,000 | 541,900,000 |
| 2012 | 100,000,000 | 490,125,000 | 590,125,000 |
| 2013 | 100,000,000 | 486,375,000 | 586,375,000 |
| 2014 | 100,000,000 | 482,525,000 | 582,525,000 |
| 2015 | 100,000,000 | 478,575,000 | 578,575,000 |
| 2016 | 100,000,000 | 474,525,000 | 574,525,000 |
| 2017 | 125,000,000 | 470,175,000 | 595,175,000 |
| 2018 | 150,000,000 | 464,737,500 | 614,737,500 |
| 2019 | 175,000,000 | 458,212,500 | 633,212,500 |
| 2020 | 225,000,000 | 449,550,000 | 674,550,000 |
| 2021 | 275,000,000 | 438,412,500 | 713,412,500 |
| 2022 | 325,000,000 | 424,800,000 | 749,800,000 |
| 2023 | 375,000,000 | 408,712,500 | 783,712,500 |
| 2024 | 450,000,000 | 390,150,000 | 840,150,000 |
| 2025 | 525,000,000 | 367,200,000 | 892,200,000 |
| 2026 | 575,000,000 | 340,425,000 | 915,425,000 |
| 2027 | 625,000,000 | 311,100,000 | 936,100,000 |
| 2028 | 700,000,000 | 279,225,000 | 979,225,000 |
| 2029 | 775,000,000 | 243,525,000 | 1,018,525,000 |
| 2030 | 875,000,000 | 204,000,000 | 1,079,000,000 |
| 2031 | 975,000,000 | 159,375,000 | 1,134,375,000 |
| 2032 | 1,050,000,000 | 109,650,000 | 1,159,650,000 |
| 2033 | 1,100,000,000 | 56,100,000 | 1,156,100,000 |
| | $ 10,000,000,000 | $ 11,933,713,333 | $ 21,933,713,333 |

## APPLICATION OF BOND PROCEEDS

The Bond proceeds will be applied approximately as set forth below:

Use of Funds

| | |
|---|---|
| Funding or Reimbursement of Pension Contributions | $ 9,477,292,917 |
| Capitalized Interest | 481,038,333 |
| Underwriters' Discount and Cost of Issuance | 38,800,000 |
| Original Issue Discount | 2,868,750 |
| Total | $10,000,000,000 |

## BOOK-ENTRY SYSTEM

Except as described herein, the Bonds will be issued in the form of one or more fully registered global securities for each maturity of the Bonds, as set forth on the inside cover of this Official Statement, in the aggregate principal amount of such maturity, and purchases of the Bonds will be registered in the name of Cede & Co., as nominee of DTC. Clearstream, Luxembourg ("**Clearstream**"), and Euroclear System ("**Euroclear**"), may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream, Luxembourg and Euroclear's names on the books of their respective U.S. Depository, which, in turn, holds such positions in customers' securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream, and the Euroclear Operator acts as depository for Euroclear. See "APPENDIX C-GLOBAL BOOK-ENTRY SYSTEM."

## 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 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 STRUCTURE."

### State Funding Payments

To provide for the manner of repayment of the GO Bonds, including the Bonds, the Bond Act requires 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 and to pay and discharge the principal and 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 "**GOBR&I Fund**") to be used for such repayment. The Bond Act requires the General Assembly to annually make appropriations to pay the principal of, interest on and premium, if any, on outstanding GO Bonds from the GOBR&I Fund.

**If for any reason there are insufficient funds in the General Revenue Fund or if for any reason the General Assembly fails to make appropriations sufficient to pay the principal of, interest on and premium, if any, on the Bonds, when due, the Bond Act constitutes an irrevocable and continuing appropriation of all amounts necessary for that purpose. The Bond Act further constitutes 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.**

Upon delivery of the Bonds, the Bond Act requires the Comptroller to compute and certify to the Treasurer the total amount of principal of and interest on the Bonds that will be payable in order to retire such Bonds and the amount of principal of and interest on such Bonds that will be payable on each payment date during the then current and each succeeding fiscal year.

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 GOBR&I Fund an amount sufficient to pay the aggregate of the principal of and interest on such Bonds payable by their terms on the next payment date divided by the number of full calendar months between the date of the 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. This transfer of moneys is not required if moneys in the GOBR&I Fund are more than the amount otherwise to be transferred as hereinabove provided, and if the Governor or his authorized representative notifies the Treasurer and Comptroller of such fact in writing.

The moneys in the GOBR&I Fund are used only for the payment of the principal of and interest on all series of 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 GOBR&I 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 GOBR&I Fund for the payment of the GO Bonds, including the Bonds, as described in the preceding paragraph.

**No Interest in Retirement System Assets**

The assets of the Retirement Systems do not secure, and are not available for payment of, the Bonds.

**Bankruptcy Consideration**

The provisions of the United States Bankruptcy Code (the "**Bankruptcy Code**") permit, under prescribed circumstances, municipalities and various other public agencies or governmental units to file a petition for relief in the nature of an adjustment in the repayment of debts, in a bankruptcy court of the United States. An amendment to the existing provisions of the Bankruptcy Code would have to be enacted by the United States Congress to authorize any state of the United States, including the State, to file such a petition for relief under the Bankruptcy Code. In addition, legislation would have to be enacted by the General Assembly before the State could file such a petition for relief under the Bankruptcy Code. No assurance can be given, however, that Federal and State law will not be amended in the future to provide the State with the ability to file such a petition. In the event that such amendments were adopted, the rights and remedies of holders of the Bonds may be subject to the provisions of the Bankruptcy Code and to other reorganization and insolvency proceedings.

## RATINGS

Moody's Investors Service ("**Moody's**") has assigned a municipal rating of "Aa3" and a corporate equivalent rating of "Aaa" to the Bonds; Standard & Poor's Rating Services ("**S&P**") has assigned a rating of "AA" to the Bonds; and Fitch Ratings ("**Fitch**") has assigned a rating of "AA" to the Bonds. The Moody's rating carries a "stable" credit outlook and the S&P rating carries a "negative" credit outlook for possible downgrade. Each of these ratings and outlooks reflects the views of the respective rating agency and an explanation of the significance of such rating and outlook may be obtained only from the respective rating agency. As part of the State's application for the ratings on the Bonds, certain information and materials, some of which are not contained herein, have been supplied to Moody's, S&P and Fitch. None of the ratings are a "market" rating or a recommendation to buy, sell or hold the Bonds, and the ratings and the Bonds, should be evaluated independently.

The ratings are subject to change or withdrawal at any time and any such change or withdrawal may affect the market price or marketability of the Bonds. 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 the Undertaking described below under the heading "CONTINUING DISCLOSURE," 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.

## LEGAL OPINIONS

Legal matters incident to the authorization, issuance, date and delivery of the Bonds by the State are offered subject to the unqualified approving opinions of Mayer, Brown, Rowe & Maw, Chicago, Illinois, and Pugh, Jones & Johnson, P.C., Chicago, Illinois, Co-Bond Counsel. The form of the approving opinions expected to be delivered by Co-Bond Counsel is contained in APPENDIX B hereto.

Certain legal matters will be passed upon for the Underwriters by Winston & Strawn, Chicago, Illinois, and Burke Burns & Pinelli, Ltd., Chicago, Illinois, Co-Underwriters' Counsel.

## TAX MATTERS

### General

In the opinion of Mayer, Brown, Rowe & Maw and Pugh, Jones & Johnson, P.C., Co-Bond Counsel, interest on the bonds is not excludable from gross income for federal income tax purposes. Co-Bond Counsel are further of the opinion that under existing law, interest on the Bonds is not exempt from State of Illinois income taxes.

### Certain United States Federal Income Tax Consequences

The following is a summary of the principal United States federal income tax consequences of ownership of Bonds. It deals only with Bonds held as capital assets by initial purchasers, and not with special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold Bonds that are a hedge or that are hedged against currency risks or that are part of a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar. The summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect.

Co-Bond Counsel have not rendered any opinion with respect to the matters discussed in this summary. Prospective purchasers of Bonds should consult their own tax advisors concerning the consequences, in their particular circumstances, under the Code and the laws of any other taxing jurisdiction, of ownership of Bonds.

### United States Holders

#### Payments of Interest

Interest on the Bonds will be taxable to a United States Holder (as defined below) as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes in accordance with generally applicable principles.

You are a United States Holder for purposes of this discussion if you are a beneficial owner of a Bond for U.S. federal income tax law purposes and you are:

- a citizen or resident of the United States;
- a corporation or partnership which is created or organized in or under the laws of the United States or of any political subdivision thereof;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (2) the trust was in existence on August 10, 1996 and properly elected to continue to be treated as a U.S. person.

The term "**Non-U.S. Holder**" refers to any beneficial owner of a Bond who or which is not a United States Holder.

### Original Issue Discount

In general, if the excess of a Bond's stated redemption price at maturity over its issue price is less than ¼ of 1 percent of the Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity, then such excess, if any, constitutes *de minimis* original issue discount. In such case, the Bond is not considered to be a Bond issued with original issue discount that is required to be included in income calculated using a constant-yield method without regard to the receipt of cash attributable to such income. Such excess will be treated as gain recognized upon retirement of the Bond. The 2033 Term Bonds are not being issued at a discount. The Bonds, other than the 2033 Term Bonds, are being issued at a discount, but are being offered at prices such that the difference between the issue price and the stated redemption price at maturity constitutes *de minimis* original issue discount.

**Sale and Retirement of the Bonds**

United States Holders of Bonds will recognize gain or loss on the sale, redemption, retirement or other disposition of such Bonds. The gain or loss is measured by the difference between the amount realized on the disposition of the Bond and the United States Holder's adjusted tax basis in the Bond. Such gain or loss will be capital gain or loss, except to the extent of accrued market discount not previously included in income, and will be long term capital gain or loss if at the time of disposition such Bond has been held for more than one year.

**United States Federal Income Tax Considerations for Non-U.S. Holders**

*Withholding Tax on Payments of Principal and Interest on Bonds.* Generally, payments of principal and interest on a Bond will not be subject to U.S. federal withholding tax, provided that in the case of an interest payment:

- you are not a bank to whom the Bonds would constitute an extension of credit made pursuant to a loan agreement entered into in the ordinary course of your trade or business; and
- either (A) the beneficial owner of the Bond certifies to the applicable payor or its agent, under penalties of perjury on an IRS Form W-8BEN (or a suitable substitute form), that such owner is not a United States person and provides such owner's name and address or (B) a securities clearing organization, bank or other financial institution, that holds customers' securities in the ordinary course of its trade or business (a "**financial institution**") and holds the Bond, certifies under penalties of perjury that such an IRS Form W-8BEN (or suitable substitute form) has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and furnishes the payor with a copy thereof.

Except to the extent otherwise provided under an applicable tax treaty, you generally will be taxed in the same manner as a United States Holder with respect to interest and original issue discount payments on a Bond if such interest and original issue discount is effectively connected with your conduct of a trade or business in the United States. Effectively connected interest and original interest discount received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or, if applicable, a lower treaty rate), subject to certain adjustments. Such effectively connected interest and original issue discount will not be subject to withholding tax if the holder delivers an IRS Form W-8ECI to the payor.

*Gain on Disposition of the Bonds.* You generally will not be subject to U.S. federal income tax on gain realized on the sale, exchange or redemption of a Bond unless:

- you are an individual present in the United States for 183 days or more in the year of such sale, exchange or redemption and either (A) you have a "tax home" in the United States and certain other requirements are met, or (B) the gain from the disposition is attributable to your office or other fixed place of business in the United States; or
- the gain is effectively connected with your conduct of a trade or business in the United States.

*U.S. Federal Estate Tax.* A Bond held by an individual who at the time of death is not a citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) will not be subject to United States federal estate tax if at the time of the individual's death, payments with respect to such Bond would not have been effectively connected with the conduct by such individual of a trade or business in the United States. The United States federal estate tax recently was repealed; however, the repeal does not take effect until 2010. In addition, the legislation repealing the estate tax expires in 2011, and thus the estate tax will be reinstated at that time unless future legislation extends the repeal.

**Backup Withholding and Information Reporting**

*United States Holders.* Information reporting will apply to payments of interest made by the State, or the proceeds of the sale or other disposition of the Bond with respect to certain non-corporate U.S. holders, and backup withholding may apply unless the recipient of such payment supplies a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

*Non-U.S. Holders*. Backup withholding and information reporting on Form 1099 will not apply to payments of principal and interest on the Bonds by the State or its agent to a Non-U.S. Holder provided the Non-U.S. Holder provides the certification described above under *"United States Federal Income Tax Considerations for Non-U.S. Holders—Withholding Tax on Payments of Principal and Interest on Bonds"* or otherwise establishes an exemption (provided that neither the State nor its agent has actual knowledge that the holder is a United States person or that the conditions of any other exemptions are not in fact satisfied). Interest payments made to a Non-U.S. Holder may, however, be reported to the IRS and to such Non-U.S. Holder on Form 1042-S.

Information reporting and backup withholding generally will not apply to a payment of the proceeds of a sale of Bonds effected outside the United States by a foreign office of a foreign broker. However, information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a sale of Bonds effected outside the United States by a foreign office of a broker if the broker (i) is a United States person, (ii) derives 50 percent or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) is a "controlled foreign corporation" as to the United States, or (iv) is a foreign partnership that, at any time during its taxable year is 50 percent or more (by income or capital interest) owned by United States persons or is engaged in the conduct of a U.S. trade or business, unless in any such case the broker has documentary evidence in its records that the holder is a Non-U.S. holder (and has no actual knowledge to the contrary) and certain conditions are met, or the holder otherwise establishes an exemption. Payment by a United States office of a broker of the proceeds of a sale of Bonds will be subject to both backup withholding and information reporting unless the holder certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

## CERTIFICATE OF THE DIRECTOR OF THE BUREAU OF THE BUDGET

The Director will provide to the Underwriters at the time of delivery of the Bonds a certificate confirming that, to the best of his knowledge and belief, 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.

## CONTINUING DISCLOSURE

The State will enter into a Continuing Disclosure Undertaking (the "**Undertaking**") for the benefit of the beneficial owners of the Bonds to provide certain information annually and notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "**Rule**") adopted by the Securities and Exchange Commission (the "**SEC**") under the Securities Exchange Act of 1934, as amended (the "**1934 Act**"). See "APPENDIX D-CONTINUING DISCLOSURE UNDERTAKING" for a description of the information to be provided annually, the events which will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies.

The State is in compliance with each and every undertaking previously entered into by it pursuant to the Rule. A failure by the State to comply with the Undertaking will not constitute a default under the Bond Sale Order, adopted by the Governor and the Director authorizing the issuance of the Bonds (the "**Bond Sale Order**"), and beneficial owners of the Bonds are limited to the remedies described in the Undertaking. See "APPENDIX D-CONTINUING DISCLOSURE UNDERTAKING - Consequences of Failure of the State to Provide Information." A failure by the State to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

## LITIGATION

There is no controversy or litigation pending, or to the knowledge of the State threatened, in any way questioning the title of the officials of the State or any of the 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 in Illinois.

In October 1997, the Illinois Supreme Court ruled that the insurance privilege tax, as it existed in Illinois law between 1993 and 1997, was unconstitutional. The cases challenging this tax were consolidated and remanded to the Circuit Courts of Cook County and Sangamon County for a determination of damages. In October 2002, the majority of the pending cases, both in terms of number of cases and dollar value, were dismissed by the Cook County and Sangamon County Courts pursuant to a settlement agreement between the parties. The settlement agreement provides for the release of $50.7 million from the Protest Fund (the "**Protest Fund**"), which has been transferred to the State's general funds. A total of $18.2 million was paid out of the special fund known as the Protest Fund in settlement to certain plaintiffs (see "STATE FINANCIAL INFORMATION-MONEY PAID TO THE STATE UNDER PROTEST"). There remains approximately $23.0 million in the Protest Fund from insurance privilege taxes. While the State cannot predict the exact amount of further settlements or damages that may be awarded, the State expects that such settlements or awards would not materially adversely affect the security for the Bonds or the State's ability to pay debt service on the Bonds.

Two actions have been brought in the Circuit Court of Cook County challenging, on constitutional grounds, the State's liquor taxes, including the increase in liquor taxes enacted in 1999 to help provide funding for the State's Fund for Infrastructure, Roads, School and Transit ("**Illinois FIRST**") Program. In the first action, on July 30, 2000, the Circuit Court certified this action as a class action on behalf of all liquor consumers and retailers, with a single liquor distributor as plaintiff. The Circuit Court also expanded its May 30, 2000 temporary injunction to include all liquor taxes paid by this distributor and ordered all of that distributor's taxes to be placed in the State's Protest Fund. As of April 30, 2003, a total of $49.2 million of liquor tax collections had been deposited into the Protest Fund. Liquor taxes deposited into the general funds totaled $122 million in fiscal year 2002 and are budgeted at $125 million in fiscal year 2003. On April 18, 2002, the Circuit Court of Cook County ruled that the legislation increasing the liquor tax in 1999 violated several constitutional procedural requirements, but ruled in favor of the State on the uniformity count. The State and the plaintiffs have appealed various elements of this ruling. In the second action brought by the same plaintiff, a complaint is pending. No taxes, however, are currently required to be placed in the Protest Fund. While the State believes that it will prevail on the merits in both actions, any adverse decision would not materially adversely affect the security for the Bonds or the State's ability to pay debt service on the Bonds.

**ERISA CONSIDERATIONS**

Section 406 of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") and Section 4975 of the Code prohibit employee benefit plans ("**Employee Plans**") subject to ERISA or the Code from engaging in certain transactions involving "plan assets" with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to the Employee Plan. ERISA also imposes certain duties on persons who are fiduciaries of Employee Plans subject to ERISA and prohibits certain transactions between an Employee Plan and "parties in interest" with respect to such Employee Plans. Under ERISA, any person who exercises any authority or control respecting the management or disposition of the assets of an Employee Plan is considered to be a fiduciary of such Employee Plan (subject to certain exceptions not relevant here). A violation of these "prohibited transaction" rules may generate excise tax and other liabilities under ERISA and the Code for fiduciaries and parties in interest.

The Underwriters, as a result of their own activities or because of the activities of an affiliate, may be considered "disqualified persons" within the meaning of ERISA or "parties in interest" within the meaning of the Code, with respect to certain employee benefit plans. Prohibited transactions within the meaning of Section 406 of ERISA and Section 4975 of the Code may arise if Bonds are acquired by an Employee Plan with respect to which the Underwriters, or any of their respective affiliates, are "disqualified persons" or "parties in interest." Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Employee Plan fiduciary making the decision to acquire a Bond and the circumstances under which such decision is made. Included among these exemptions are those regarding securities purchased during the existence of an underwriting, investments by insurance company separate accounts, investments by insurance company general accounts, investments by bank collective investment funds, transactions effected by a "qualified professional asset manager," and transactions affected by an "in-house asset manager." 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. In order to ensure that no prohibited transaction under ERISA and the Code will take place in connection with the acquisition of a Bond by or on behalf of an Employee Plan, each prospective purchaser of a Bond who is an Employee Plan or is acquiring on behalf of an Employee Plan will be required to represent that either (i) no prohibited transactions under ERISA and the Code will occur in connection with the acquisition of such Bond or (ii) the acquisition of such Bond is subject to a statutory or administrative exemption.

Any Employee Plan fiduciary which proposes to cause an Employee Plan to purchase Bonds should consult with its counsel with respect to the potential applicability of ERISA and the Code to such investments and whether any exemption would be applicable and determine on its own whether all conditions have been satisfied. Moreover, each Employee Plan fiduciary should determine whether, under the general fiduciary standards of investment prudence and diversification, an investment in the Bonds is appropriate for the Employee Plan, taking into account the overall investment policy of the Employee Plan and the composition of the Employee Plan's investment portfolio.

## UNDERWRITING

### General

The group of underwriters shown on the cover page of this Official Statement (the "**Underwriters**"), on behalf of which Bear, Stearns & Co. Inc. and UBS PaineWebber Inc. are acting as representatives, have agreed, subject to certain conditions, to purchase all, but not less than all, of the Bonds at a price of $9,960,731,250 (representing the principal amount of the Bonds less an original issue discount of $2,868,750 and an Underwriters' discount of $36,400,000). The State has been advised by the Underwriters that the Bonds may be offered and sold to certain dealers and others at prices lower than the initial public offering prices and the public offering prices may be changed from time to time by the Underwriters. Any obligations of the Underwriters are the sole obligations of the Underwriters and do not create any obligations on the part of any affiliate of the Underwriters, including any affiliated banks.

Effective June 9, 2003, UBS PaineWebber Inc. will be renamed UBS Financial Services Inc. Any references to UBS PaineWebber Inc. contained in this Official Statement will refer to UBS Financial Services Inc. as of that date.

### Global Plan of Distribution

The following information has not been prepared or furnished by the State and is provided only as a matter of convenience to potential purchasers of the Bonds. Potential purchasers are advised to seek appropriate professional advice with respect to restrictions applicable to their purchase of the Bonds.

The Bonds are offered by the Underwriters for sale in those jurisdictions in the United States, Europe, Asia and elsewhere where it is lawful to make such offers. Each Underwriter has undertaken that it has not offered, sold or delivered and it will not offer, sell or deliver, directly or indirectly, any of the Bonds or distribute this Official Statement or any other material relating to the Bonds, in or from any jurisdictions except under circumstances that will, to the best of its knowledge and belief, result in compliance with the applicable laws and regulations thereof and which will not impose any obligations on the State except as contained in the purchase contract among the State and the Underwriters. Sales in the United States by Underwriters who are not U.S. registered broker-dealers will be made to or through such Underwriters' U.S. registered broker-dealer affiliates. Persons who receive this Official Statement are required to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver the Bonds or have in their possession, distribute or publish any offering material relating to the Bonds, in all cases at their own expense.

Each Underwriter agrees that (i) it has not offered or sold and will not offer or sell any of the Bonds to persons in the United Kingdom (the "**U.K.**") prior to the expiration of the period of six months from the date of delivery of the Bonds except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (whether as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the U.K. within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has complied and will comply with all applicable provisions of the Financial Series and Markets Act 2000 ("**FSMA**") and the Public Offers of Securities Regulations 1995 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the U.K.; and (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of the FSMA) received by them in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply.

Each Underwriter and the State has represented and agreed that (i) it has not offered or sold and will not offer or sell, directly or indirectly, any Bonds to the public in the Republic of France, and that offers and sales of Bonds in the Republic of France will be made in accordance with Article L. 411-2 of the French Monetary and Financial Code (Code Monétaire et Finacier) and implementing Decree No. 98-880 dated 1 October 1998, as amended, regulating offers of securities to a limited number of investors and/or qualified investors, and (ii) it has not distributed or caused to be distributed and will not distribute or cause to be distributed in the Republic of France, the Official Statement or any other offering material relating to the Bonds other than to investors to whom offers and sales of Bonds in the Republic of France may be made as described above. The State makes the foregoing representations and agreement solely in reliance on the representations and agreements of the Underwriters, without independent investigation.

Each Underwriter acknowledges that this Official Statement has not been registered with the Registrar of Companies in Singapore and that the Bonds are offered in Singapore pursuant to exemptions invoked under Section 106c and 106d of the Companies Act, Chapter 50 of Singapore (the "**Singapore Companies Act**"). Accordingly, each Underwriter has represented and agreed that the Bonds may not be offered or sold, nor may this Official Statement or any other offering document or material relating to the Bonds be circulated or distributed, directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other body or person specified in Section 106c of the Singapore Companies Act, or (2) to a sophisticated investor specified Section 106d of the Singapore Companies Act, or (3) otherwise pursuant to, and in accordance with the conditions of Section 106e(2) of the Singapore Companies Act or any other applicable exemption invoked under Division 5A of Part IV of the Singapore Companies Act.

Each of the Underwriters has agreed that it has not directly or indirectly offered or sold, and it will not directly or indirectly offer or sell, any Bonds in Japan or for the benefit of, any resident of Japan (which term as used in this paragraph means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or, for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and in compliance with, the Securities and Exchange Law of Japan and any other applicable laws, regulations and guidelines of Japan.

The Bonds may not be offered, sold, or delivered in or from The Netherlands, as part of their initial distribution or as part of any reoffering, and neither this Official Statement nor any document in respect of the offering may be distributed or circulated in The Netherlands, other than to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises) or otherwise in compliance with any other applicable laws or regulations of The Netherlands.

Purchasers of the Bonds may be required to pay stamp taxes and other charges in accordance with the laws and practices of the county of purchase in addition to the relevant issue price set forth on the inside cover page hereof.

## 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 government exclusive of the offices of other constitutionally-elected officials. The other elected officials of the executive branch include the Lieutenant Governor, the Attorney General, the Secretary of State, the Comptroller and the Treasurer.

The Illinois Constitution provides that all elected officials of the Executive Branch of the State Government hold office for four-year terms. Pursuant to the Illinois Constitution, these officials were elected at a general election in November 2002 and took office on January 13, 2003.

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 meet in annual sessions to enact, amend or repeal laws and to adopt appropriation bills.

The judicial branch is composed of the Supreme Court, the Appellate Courts and the Circuit Courts.

## 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 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.

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 legislature. 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.

## BUREAU OF THE BUDGET

The Bureau was created in 1969 by an act of the General Assembly. The Bureau is headed by the Director, who is appointed by the Governor. Besides assisting the Governor in developing the budget, the Bureau provides financial and other information regarding the State to securities investors, Nationally Recognized Municipal Securities Information Repositories and others as required by federal securities rules (see "THE OFFERING-CONTINUING DISCLOSURE" and "APPENDIX D-CONTINUING DISCLOSURE UNDERTAKING"). Legislation is pending which would expand the functions of the Bureau and would change the name of the Bureau to the Office of Management and Budget.

# STATE FINANCIAL INFORMATION

## FINANCIAL STATEMENTS

The tables that follow present pertinent financial information about the State. Data are for the State's fiscal years which run from July 1 through June 30. Tables 1 and 2 of this section, unless otherwise noted, are based on information contained in the detailed Annual Report or records of the Comptroller. Table 3 is based on records of the Bureau. For purposes of Tables 1 and 2 of this section, expenditures are deemed to be recognized when payment warrants are issued.

**Table 1**
**REVENUES AND EXPENDITURES[1], GENERAL FUNDS[2]**
**FISCAL YEARS 1998-2002[3]**
**($ in Thousands)**

| | FY 98 | FY 99 | FY 00 | FY 01 | FY 02 |
|---|---|---|---|---|---|
| **Available Balance, Beginning** | 806,213 | 1,201,514 | 1,350,636 | 1,516,653 | 1,125,673 |
| **Revenues** | | | | | |
| State Sources | | | | | |
| Income Tax | 7,982,436 | 8,347,379 | 8,923,027 | 9,031,831 | 8,274,251 |
| Sales Tax | 5,274,137 | 5,608,646 | 6,026,860 | 5,957,929 | 6,050,553 |
| Public Utility Tax | 912,138 | 1,019,122 | 1,115,855 | 1,146,458 | 1,103,784 |
| Cigarette Tax | 346,209 | 403,191 | 399,600 | 399,600 | 399,600 |
| Inheritance Tax | 250,434 | 346,978 | 348,009 | 361,039 | 329,168 |
| Liquor Gallonage Tax | 57,034 | 57,239 | 127,872 | 124,319 | 122,000 |
| Insurance Tax & Fees | 91,359 | 208,064 | 209,130 | 245,576 | 272,361 |
| Corporate Franchise Tax | 118,029 | 116,642 | 138,581 | 146,024 | 159,419 |
| Investment Income | 182,185 | 212,464 | 233,017 | 274,062 | 135,419 |
| Intergovernmental Transfer | 152,436 | 217,766 | 245,116 | 245,116 | 245,116 |
| Short Term Borrowing | --- | --- | --- | --- | --- |
| Other | 217,682 | 227,510 | 231,754 | 441,054 | 550,396 |
| Total, State Sources | 15,584,079 | 16,765,001 | 17,998,821 | 18,373,008 | 17,642,067 |
| Federal Sources | | | | | |
| Reimbursement for Welfare & Social Service Expenditures | 3,323,431 | 3,718,424 | 3,891,359 | 4,319,764 | 4,258,146 |
| Transfers In | | | | | |
| Transfers from Other State Funds | 1,076,390 | 1,191,057 | 1,359,471 | 1,413,171 | 1,478,751 |
| Total Revenues | 19,983,900 | 21,674,482 | 23,249,651 | 24,105,943 | 23,378,964 |
| **Cash Expenditures†** | | | | | |
| Operations | 5,223,899 | 5,721,044 | 6,307,524 | 6,626,299 | 6,799,548 |
| Awards and Grants | 12,548,000 | 13,649,836 | 14,659,071 | 15,592,205 | 15,235,657 |
| Permanent Improvements and Road and Waterway Construction | 33,989 | 32,295 | 31,067 | 20,432 | 20,867 |
| Refunds | 13,787 | 15,946 | 56,808 | 41,549 | 32,718 |
| Transfers Out | | | | | |
| for Short Term Borrowing[4] | --- | --- | --- | --- | --- |
| to Debt Service Funds[5] | 472,377 | 450,214 | 450,866 | 467,987 | 556,576 |
| to Other State Funds | 1,296,555 | 1,656,025 | 1,578,298 | 1,748,451 | 1,603,062 |
| Total Cash Expenditures | 19,588,607 | 21,525,360 | 23,083,634 | 24,496,923 | 24,248,418 |
| **Available Balance, Ending** | 1,201,506 | 1,350,636 | 1,516,653 | 1,125,673 | 256,209 |

[1]Based on information from the Office of the Comptroller.
[2]General funds include the General Revenue Fund, Common School Fund, General Revenue-Common School Special Account Fund and Education Assistance Fund.
[3]Excludes transfers to and from the Budget Stabilization Fund.
[4]All general funds short term borrowing is repaid before the end of the fiscal year; provided, however, that the short-term certificates issued on May 22, 2003 are not payable in full until May 15, 2004. See "INDEBTEDNESS-SHORT TERM DEBT."
[5]This item is for debt service on all GO Bonds.
†Cash Expenditures by category net of prior year adjustments.

**Table 2**

**REVENUES AND EXPENDITURES[1], ROAD FUND**
**FISCAL YEARS 1998-2002**
**($ in Thousands)**

| | FY 98 | FY 99 | FY 00 | FY 01 | FY 02 |
|---|---|---|---|---|---|
| **Available Balance, Beginning** | 286,603 | 425,771 | 471,028 | 589,999 | 843,454 |
| **Revenues** | | | | | |
| State Sources | | | | | |
| Motor Vehicles & Operators License Fees | 418,667 | 449,526 | 530,668 | 620,257 | 613,077 |
| Certificates of Title | 0 | 0 | 37,894 | 142,819 | 147,887 |
| Property Sales (City and County) | 50,054 | 55,422 | 43,890 | 48,362 | 63,391 |
| Miscellaneous | 85,493 | 46,478 | 56,965 | 73,215 | 55,897 |
| Total State Sources | 554,214 | 551,426 | 669,417 | 884,653 | 880,252 |
| Federal Sources | 729,231 | 644,470 | 853,606 | 905,790 | 834,455 |
| Transfers In | | | | | |
| Transfer from Motor Fuel Tax Fund | 419,982 | 433,841 | 397,902 | 319,623 | 318,137 |
| Transfer from Other Funds | 15 | --- | --- | --- | --- |
| Total, Transfers In | 419,997 | 433,841 | 397,902 | 319,623 | 318,137 |
| Total Revenues | 1,703,442 | 1,629,737 | 1,920,925 | 2,110,066 | 2,032,844 |
| **Cash Expenditures** | | | | | |
| Operations | 752,207 | 772,728 | 751,062 | 794,934 | 830,064 |
| Awards and Grants | 85,196 | 96,952 | 124,918 | 125,477 | 122,262 |
| Permanent Improvements | 5,902 | 5,964 | 5,896 | 5,235 | 5,969 |
| Highway Construction | 529,968 | 520,676 | 736,515 | 739,072 | 868,389 |
| Transfers Out | | | | | |
| to Debt Service Funds[2] | 190,899 | 188,005 | 183,389 | 191,717 | 210,780 |
| to Other State Funds | 102 | 155 | 174 | 176 | 151 |
| Total, Transfers Out | 191,001 | 188,160 | 183,563 | 191,893 | 210,931 |
| Total Cash Expenditures | 1,564,274 | 1,584,480 | 1,801,954 | 1,856,611 | 2,037,615 |
| **Available Balance, Ending** | 425,771 | 471,028 | 589,999 | 843,454 | 838,683 |

[1]Based on information from the Office of the Comptroller.
[2]This item is for the debt service on general obligation Transportation Bonds, Series A, sold for highway purposes.

**Table 3**

**GENERAL FUNDS APPROPRIATIONS[1,2]**
**FISCAL YEARS 2002-2003[3]**
**($ in Millions)**

| Category | FY 02 | FY 03[4] | $ Change | % Change |
|---|---|---|---|---|
| Elementary & Secondary Education | 6,227 | 6,150 | -77 | -1.3% |
| Higher Education | 2,668 | 2,536 | -132 | -4.9 |
| Public Aid | 5,265 | 5,113 | -152 | -2.9 |
| Revenue | 250 | 152 | -98 | -39.2 |
| Human Services | 3,803 | 3,574 | -229 | -6.1 |
| Corrections | 1,303 | 1,207 | -96 | -7.4 |
| Children & Family Services | 925 | 838 | -87 | -9.4 |
| Central Management Services | 760 | 841 | 81 | 10.7 |
| State Police | 249 | 194 | -55 | -22.1 |
| Other Agencies | 1,959 | 1,698 | -261 | -13.4 |
| Total | 23,409 | 22,303 | -1,106 | -4.8% |

1Columns may not add due to rounding.
2Does not reflect reserves imposed in fiscal year 2002 and fiscal year 2003.
3Reflects final appropriations for each fiscal year as supplemented from time to time during such fiscal year.
4Does not include $66.6 million in supplemental appropriations recently passed by the General Assembly.

**FISCAL YEAR 2003 GENERAL FUNDS UPDATE**

As approved in June 2002, the fiscal year 2003 budget was based on estimated general funds revenues of $24,385 million, an increase of $1,006 million or 4.3 percent from fiscal year 2002 revenues. State source revenues were estimated to increase $1,189 million, or 6.2 percent, while federal receipts were expected to decrease $183 million, or 4.3 percent. General funds expenditures, including transfers to other state funds, were expected to be $24,366 million leaving a projected end of fiscal year general funds balance of $275 million.

The fiscal year 2003 general funds budget (enacted in June 2002) included appropriations totaling $22,298 million, a decrease of $1,111 million below fiscal year 2002 appropriations. Public Act 92-856, effective December 6, 2002, provided for a $4.5 million general fund supplemental fiscal year 2003 appropriation for the State Board of Education. On June 1, 2003, the General Assembly passed additional general funds supplemental appropriations for fiscal year 2003 totaling $66.6 million, including $35 million for state employees' health insurance and $22 million for the State Board of Education for general state aid payments.

Due to the overestimation of revenues for the fiscal year 2003 budget, Governor Blagojevich has taken certain steps to control expenditures and reduce the budget deficit for fiscal year 2003. For further information regarding the Governor's budget plan to address the accumulated deficit through fiscal year 2003, see "FISCAL YEAR 2004 BUDGET" below. The Governor has also recommended other financing alternatives to increase revenues during fiscal year 2003, including the reimbursement into the General Revenue Fund of $300 million in proceeds from the sale of the Bonds (see "PLAN OF FINANCE-ISSUANCE OF THE BONDS AND ALLOCATION OF PROCEEDS") and the one-time transfer of $144 million from other special State funds. In February 2003, Governor Blagojevich imposed specific appropriation reserves totaling $202 million. As part of the Governor's plan to reduce accumulated bills, the State recently issued $1.5 billion of short-term certificates of indebtedness which must be repaid by May 15, 2004. For further information regarding this short term debt issuance, see "INDEBTEDNESS-SHORT TERM DEBT."

Fiscal year 2003 general funds revenues are now expected to total $23,123 million ($1.3 billion less than originally budgeted). The fiscal year 2003 ending general funds balance is projected to be $275 million, and the fiscal year 2003 ending balance in the Budget Stabilization Fund (as described below) is expected to be $226 million, totaling $501 million in available reserves.

**FISCAL YEAR 2004 BUDGET**

On April 9, 2003, Governor Blagojevich presented his fiscal year 2004 budget to the General Assembly. The fiscal year 2004 budget was intended to address the budget deficit created in fiscal year 2003.

The General Assembly passed the State's fiscal year 2004 budget during its spring legislative session. The budget approved by the General Assembly contains proposed revenue sources and appropriations which were substantially similar to those proposed by the Governor, but included additional appropriations. The budget passed by the General Assembly contains general fund appropriations totaling $23,452 million. Under the State Constitution, after passage of the State budget, the Governor is authorized to make line item vetoes (which remove an entire item of appropriation) or reduction vetoes (which reduce an item of appropriation). Line item vetoes and reduction vetoes are returned to the General Assembly which then has the opportunity to accept or override the action taken by the Governor. A three-fifth majority vote of each house of the General Assembly is required to override any line item veto or reduction veto. The Governor has announced that he will veto certain items of appropriation in the State's fiscal year 2004 budget and may veto additional items of appropriation. It is not known at this time what action the General Assembly will take in response to such vetoes. As a result, the final amount of the State's fiscal year 2004 appropriations is not known at this time.

The budget is based on estimates of general funds base revenues of $23,218 million, an increase of $95 million, or 0.4 percent from the current fiscal year. The General Assembly also passed several revenue enhancements estimated to generate $2,082 million, including an estimated $808 million in one-time revenue sources, including $233 million for asset sales and leasebacks, $40 million for a tax amnesty program, $350 million for the sale of the tenth riverboat gaming license, $50 million for cigarette tax adjustments and $125 million in fund transfers. The revenue enhancements also include an estimated $1,274 million in ongoing revenues, including $217 million from tax loophole reductions, $240 million from increased gaming taxes and liquor sales tax adjustments, $396 million from user fee adjustments and $422 million from administrative chargebacks to other State funds. The budget also projects general funds revenues totaling $1,860 million derived from the proceeds from the sales of the Bonds, which include $1,600 million of general revenue fund related reimbursements and $260 million from fund transfers and chargebacks implemented in connection with the funding of State contributions to the Retirement Systems.

In addition to the revenue enhancements, there are additional cost savings initiatives which will be implemented during fiscal year 2004. These initiatives include the consolidation of state agency procurements, information technology projects, facilities management, and legal and auditor services, as well as the elimination of merit pay increases and a reduction in the number of state vehicles.

**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 newly created Budget Stabilization Fund. The State transferred $225 million to the fund in July 2001. Public Act 92-11, effective June 11, 2001, 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. In November 2001, the Comptroller directed the transfer of approximately $226 million on deposit in the Budget Stabilization Fund to the General Revenue Fund to meet cash flow needs. This transfer was repaid to the Budget Stabilization Fund by June 28, 2002 but the Comptroller retransferred the $226 million to the General Revenue Fund on July 1, 2002. These funds must be repaid to the Budget Stabilization Fund by June 30, 2003.

The fiscal year 2004 budget includes a transfer of $226 million from the Budget Stabilization Fund to the General Revenue Fund, which must be repaid by June 30, 2004. The budget also includes an additional $50 million contribution from the General Revenue Fund to the Budget Stabilization Fund during fiscal year 2004, bringing its ending fiscal year 2004 balance to $276 million. See "STATE FINANCIAL INFORMATION-FISCAL YEAR 2004 BUDGET."

**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 Treasury by the Comptroller. Prior to fiscal year 1998, disbursements were recognized when payment warrants were issued. Since fiscal year 1998, disbursements are recognized when vouchers are 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. Also, since 1981, the Comptroller has issued a Comprehensive Annual Financial Report ("**CAFR**"), which includes General Purpose Financial Statements prepared according to generally accepted accounting principles ("**GAAP**") and statements of budgetary fund balances and changes in budgetary fund balances for all fund groups.

**GAAP FINANCIAL REPORT**

The complete General Purpose Financial Statements for fiscal year 2002, prepared in accordance with GAAP, have been filed with each NRMSIR (as defined in "APPENDIX D-CONTINUING DISCLOSURE UNDERTAKING") and are incorporated herein by reference thereto. Such Statements are also available upon request from the Office of the Comptroller at (217) 782-6000 or from the Comptroller's webpage at www.illinoiscomptroller.com. These statements were prepared by the Comptroller and examined and certified by the State Auditor General. For fiscal year 2002, the Auditor General has expressed an unqualified opinion on the General Purpose Financial Statements. Effective July 1, 2001, the State adopted the provisions of Governmental Accounting Standards Board Statements No. 34, No. 35, No. 37 and No. 38. These statements established a new financial reporting model requiring entity-wide financial statements that more closely resemble the financial statements reported by for-profit entities than that of the prior governmental reporting model. The entity-wide financial statements includes among other items, the balance sheet recognition of long-term assets, long-term liabilities and depreciation. The new financial model also requires major fund financial statements that are comparable to the financial statements reported under the prior governmental reporting model.

Table 4 provides a reconciliation statement for the general funds between cash basis, budgetary basis, and GAAP basis accounting. The accompanying footnotes are an integral part of that statement.

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**Table 4**
**STATE OF ILLINOIS**
**GENERAL FUNDS RECONCILIATION**
**Fiscal Year 2002**
**($ in Thousands)**

| | Cash Basis | Adjustments for Budgetary Basis | Budgetary Basis | Adjustments for GAAP | GAAP Basis |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Income Taxes (net) | $ 8,259,606 | $ - | $ 8,259,606 | $ (342,632) | $ 7,916,974 |
| Sales Taxes (net) | 6,022,678 | 27,875 | 6,050,553 | (55,793) | 5,994,760 |
| Public Utility Taxes (net) | 1,103,784 | - | 1,103,784 | (21,316) | 1,082,468 |
| Federal government (net) | 4,131,640 | - | 4,131,640 | 1,131,343 | 5,262,983 |
| Other (net) | 2,204,467 | (27,776) | 2,176,691 | 505,337 | 2,682,028 |
| Total revenues | 21,722,175 | 99 | 21,722,274 | 1,216,939 | 22,939,213 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Health and Social Services | 9,981,072 | 258,208 | 10,239,280 | 2,093,829 | 12,333,109 |
| Education | 8,487,319 | 311,786 | 8,799,105 | (143,475) | 8,655,630 |
| General Government | 1,290,860 | 42,163 | 1,333,023 | 84,060 | 1,417,083 |
| Employment and Economic Development | 191,460 | 11,258 | 202,718 | (2,679) | 200,039 |
| Transportation | 60,914 | (3,430) | 57,484 | (1,016) | 56,468 |
| Public Protection and Justice | 1,790,213 | 30,377 | 1,820,590 | 7,415 | 1,828,005 |
| Environment and Business Regulation | 190,391 | 3,747 | 194,138 | 12,619 | 206,757 |
| Debt Service: | | | | | |
| Principal | - | - | - | 9,963 | 9,963 |
| Interest | - | - | - | 2,515 | 2,515 |
| Capital Outlays | 43,880 | (3,260) | 40,620 | 14,032 | 54,652 |
| Total expenditures | 22,036,109 | 650,849 | 22,686,958 | 2,077,263 | 24,764,221 |
| Excess of revenues over expenditures | (313,934) | (650,750) | (964,684) | (860,324) | (1,825,008) |
| Other sources (uses) of financial resources: | | | | | |
| Operating transfers-in | 4,300,805 | - | 4,300,805 | (2,458,143) | 1,842,662 |
| Operating transfers-out | (4,856,325) | - | (4,856,325) | 2,877,959 | (1,978,366) |
| Proceeds from capital lease financing | - | - | - | 19,588 | 19,588 |
| Net other (uses) of financial resources | (555,520) | - | (555,520) | 439,404 | (116,116) |
| Excess of revenues over expenditures and net other (uses) of financial resources | (869,454) | (650,750) | (1,520,204) | (420,920) | (1,941,124) |
| Fund balances (deficit), July 1, 2001 | 1,125,673 | (825,529) | 300,144 | (1,578,078) | (1,277,934) |
| Restatement for change in accounting principle | - | - | - | (86,944) | (86,944) |
| Restatement of fund balance | | | | | |
| Fund balances (deficit), July 1, 2001, as restated | 1,125,673 | (825,529) | 300,144 | (1,665,022) | (1,364,878) |
| Increase (decrease) for changes in inventories | - | - | - | (237) | (237) |
| Fund balances (deficit), June 30, 2002 | $ 256,219 | $ (1,476,279) | $ (1,220,060) | $ (2,086,179) | $ (3,306,239) |

Source: Based on information from the Office of the Comptroller and derived from the State's Annual Report.

Note 1 – Cash/Budget to GAAP Perspective Difference

On the GAAP basis, the Medicaid Provider Assessment Program Funds and the Income Tax Refund Fund are reported as part of the General Fund; 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 $1,220,060 equals the June 30, 2002 cash balance of $256,219 less cash lapse period expenditures of $1,476,279. Adjustments from the cash basis of accounting for fiscal year 2002 to the budgetary basis include adding fiscal year 2002 lapse period spending (July 1 – August 31, 2002) and subtracting fiscal year 2001 lapse period spending (July 1 – August 31, 2001). 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 2002 "lapsing accounts." These expenditures include refunds which have been netted against the related revenue.

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, Public Aid medical reimbursements and payments to local school boards for State Board of Education reimbursement programs).

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

Note 4 – Restatement for Change in Accounting Principle

The fund balance for the General Fund has been restated due to the implementation of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* and a prior year error in reporting of receivables.

**TAX STRUCTURE**

**General Funds**

The general funds receive the major share of tax revenues from the following five sources:

Personal Income Tax: The personal income tax liability is 3.0 percent of each taxpayer's Illinois base income with an exemption allowed for the taxpayer and each dependent. There are also additional exemptions for the elderly, blind and disabled. The standard exemption is $2,000.

There is a tuition tax credit for parents equal to 25 percent of qualified school expenses exceeding $250 per year. The tax credit cannot exceed $500 per household in any one year.

The Income Tax Refund Fund (the "**Refund Fund**") was created in 1989. Both corporate and personal income tax refunds are paid from the Refund Fund rather than the General Revenue Fund. Statutorily, the annual percentage of corporate or personal income tax collections deposited into the Refund Fund (the "**Refund Fund rate**") is determined by a formula, the numerator of which is the prior year income tax refunds paid or approved for payment, and the denominator is the prior year income tax collections.

The Refund Fund rate for personal income taxes was statutorily set at 7.1 percent for fiscal years 1999 through 2001 to accommodate increases to the personal exemption. In fiscal year 2002, the Refund Fund rate for personal income taxes was determined by the statutory formula, with a cap of 7.6 percent. In fiscal year 2003, the Refund Fund rate for personal income taxes is set at 8.0 percent pursuant to Public Act 92-600. After fiscal year

2003, Public Act 92-600 provides that the Refund Fund rate for personal income taxes will be determined by the statutory formula. As set forth in the fiscal year 2004 budget passed by the General Assembly, the Refund Fund rate for fiscal year 2004 for personal income taxes is set at 11.7 percent.

All personal income tax collections not deposited into the Refund Fund are deposited into the general funds. During fiscal year 2002, the personal income tax accounted for approximately 31.9 percent of general funds revenues.

The Illinois Constitution requires that the basic corporate income tax rate not exceed the personal income tax rate by more than a ratio of 8 to 5.

Corporate Income Tax: The corporate income tax liability is 4.8 percent of each corporation's taxable income with a $1,000 exemption. Multi-state corporations have corporate income tax liability based on sales attributable to Illinois.

The Refund Fund rate for corporate income taxes was statutorily set at 19.0 percent for fiscal years 1999 through 2001 to accommodate the changes to the apportionment formula. In fiscal year 2002, the Refund Fund rate for corporate income taxes was determined by the statutory formula, with a cap of 23.0 percent. In fiscal year 2003, the Refund Fund rate for corporate income taxes is set at 27.0 percent pursuant to Public Act 92-600, effective June 28, 2002. After fiscal year 2003, Public Act 92-600 provides that the Refund Fund rate for corporate income taxes will be determined by the statutory formula. As set forth in the fiscal year 2004 budget passed by the General Assembly, the Refund Fund rate for fiscal year 2004 for corporate income taxes is set at 32 percent.

State corporate income taxes not deposited into the Refund Fund are deposited into the general funds. During fiscal year 2002, corporate income taxes accounted for approximately 3.4 percent of general funds revenues.

Corporations are subject to a supplemental income tax at a rate of 2.5 percent (1.5 percent for a partnership, trust, or Subchapter S corporation), imposed to replace for local governments the corporate personal property tax which was abolished on January 1, 1979. The replacement income tax is distributed to local governments by the State.

Sales Tax: The State levies a tax on retail sales subject to certain exemptions, including food and drugs. The sales and use tax rate is 6.25 percent, comprised of the State's portion of 5.0 percent and the local government's portion of 1.25 percent. The 6.25 percent tax is applied to a standard base, meaning counties and municipalities must tax the same items as the State. In fiscal year 2002, sales taxes provided approximately 26.0 percent of general funds revenues.

Public Utility Taxes: Public utility tax receipts are comprised of taxes on electricity, natural gas, and telecommunications. In fiscal year 2002, public utility taxes provided 4.7 percent of general funds revenues. The tax for natural gas is imposed on gas utilities at the lesser of 5.0 percent of gross receipts or 2.4 cents per therm. The tax on electricity is a per kilowatt-hour tax on end-user usage, with the marginal tax rate declining as usage increases during the month. Non-residential customers may opt to be "self-assessing purchasers" and pay at the rate of 5.1 percent of purchase price of the electricity that is used or consumed in a month.

The Telecommunications Excise Tax Act was amended in 1998 to raise the tax on all telecommunications billed to Illinois consumers from 5.0 to 7.0 percent of gross receipts. One-half of the additional revenue is deposited into the Common School Fund, a general fund, and one-half is deposited into the School Infrastructure Fund. Transfers from the School Infrastructure Fund are made to the GOBR&I Fund as a supplementary source for debt service on school construction bonds issued under Section 5(e) of the Bond Act.

Cigarette Tax: The cigarette tax is 98 cents per package of 20 cigarettes and was last increased 40 cents per package of 20 cigarettes in June 2002. From the total tax collected, $33.3 million a month is deposited into the general funds and $5 million a month is deposited into the School Infrastructure Fund for debt service payments on an expansion of the school construction grant program. A total of $4.8 million a year continues to be deposited into the Statewide Economic Development Fund. Remaining cigarette tax revenues are deposited into the Long Term Care Provider Fund.

**Other**

Road Fund

The Road Fund receives the bulk of its State revenues from motor fuel taxes and vehicle registration fees.

Motor Fuel Tax: The State imposes the following taxes on motor fuel used for highway transportation on a per gallon basis:

- motor fuel tax of 19 cents per gallon;
- additional diesel tax of 2.5 cents per gallon; and
- Leaking Underground Storage Tank (LUST) tax of 0.3 cents per gallon.

Motor fuel tax receipts are deposited into the Motor Fuel Tax (MFT) Fund. The revenues from the MFT Fund are split between the State and local government units after certain administrative expenses and a series of transfers out to other State funds. These revenues are split 45.6 percent to the State and 54.4 percent to the local governments. Of the State's share, 37 percent is deposited into the State Construction Account Fund and 63 percent is deposited into the Road Fund. The local share of receipts is awarded as grants to municipalities, counties, townships and road districts.

The revenues from the additional diesel tax are deposited directly into the State Construction Account Fund which is used for highway construction. The revenues from the 0.3 cents per gallon LUST tax are scheduled to be transferred into the Underground Storage Tank Fund until January 1, 2013.

Motor Vehicle Fees: Revenue from motor vehicle fees is derived primarily from vehicle registrations, with fees from operators' and chauffeurs' licenses and vehicle titles representing a smaller portion of the total. Approximately 60 percent of these fees is paid into the Road Fund, and the remainder is paid into the State Construction Account Fund and other smaller funds. Motor vehicle registration fees are $78 annually and large truck and trailer registration fees were on a scale ranging from $135 for an 8,000 pound truck to $2,790 for an 80,000 pound truck. Certificate of title fees are $65. During calendar years 2000 through 2004, $48 of each title fee increase will be deposited into the Road Fund and the remaining $4 will be deposited into the newly created Motor Vehicle License Plate Fund, to finance the issuance of new license plates. Beginning in fiscal year 2005, the entire $52 increase will be deposited into the Road Fund.

**Tax Burden**

Two of the most commonly cited measures of tax burden are tax receipts per capita and tax receipts per $1,000 of personal income. According to the United States Department of Commerce, Bureau of the Census, State Government Finances: 2000 (May 2002), to assess tax burden in a state, these measures are applied to the state's total general revenue collections (general revenue includes state taxes, intergovernmental revenue, current charges and other miscellaneous general revenue) and to state tax collections (state tax collections include sales and gross receipts, corporate income, personal income and other taxes). In 2000, the State's general revenue collections per capita of $3,121 ranked eleventh lowest among the states, below the national average of $3,503. When taking into consideration the wealth of states in the United States, the State's 2000 total of $103 General Revenue funds collected per $1,000 of personal income ranked as the fourth lowest in the nation, well below the national average of $127.

With respect to state tax collections only, the State's 2000 per capita collections of $1,835 ranked as the twenty-seventh lowest among the states in the United States, about $85 below the average nationwide. The State's 2000 total of $60 collected per $1,000 of personal income compares to the national average total of $69 collected per $1,000. By this measure of tax burden, the State has the ninth lowest in the nation.

**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. 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 April 30, 2003, the total Protest Fund balance was $198.4 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 history of issuing short term debt.

**Table 5**

**SHORT TERM CERTIFICATES ISSUED**
**(As of May 22, 2003)**
**($ in Millions)**

| Date Issued | Amount Issued | Date Final Maturity Retired |
|---|---|---|
| May 2003 | 1,500 | May 2004 (anticipated) |
| July 2002 | 1,000 | June 2003 (anticipated) |
| August 1995 | 500 | June 1996 |
| August 1994 | 687 | June 1995 |
| August 1993 | 900 | June 1994 |
| October 1992 | 300 | June 1993 |
| August 1992 | 600 | May 1993 |
| February 1992 | 500 | October 1992 |
| August 1991 | 185 | June 1991 |
| February 1987 | 100 | February 1988 |
| June-July 1983 | 200 | May 1984 |

As shown in the preceding table, the State issued short-term certificates in the amount of $1.5 billion on May 22, 2003 and such certificates must be repaid by May 15, 2004. These certificates are expected to be paid from new revenue sources proposed by the Governor in his fiscal year 2004 budget. See "STATE FINANCIAL-INFORMATION-FISCAL YEAR 2004 BUDGET." The proceeds of these certificates will be applied, among other purposes, to pay outstanding accounts payable of the State and past due income tax refunds. See "STATE FINANCIAL INFORMATION-FISCAL YEAR 2004 BUDGET."

### 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 currently authorizes the issuance of multiple purpose GO Bonds for capital purposes in the aggregate amount of $17,658,149,369, excluding general obligation refunding bonds and the Bonds.

Public Act 92-596, effective June 28, 2002, authorized a new category of GO Bonds called "tobacco securitization general obligation bonds" in the amount of $750 million. These bonds may be issued in fiscal year 2003 only and the proceeds must be split equally into the General Revenue Fund and the Budget Stabilization Fund. Transfers from the Tobacco Settlement Recovery Fund would be made to the GOBR&I Fund as a supplemental source for debt service on these bonds. There are no plans to issue such bonds. This authorization expires June 30, 2003.

In April 2003, pursuant to Public Act 93-2, the State was authorized to issue and sell the Bonds for the purpose of funding or reimbursing a portion of the State's contributions to the Retirement Systems. For further information regarding the Bonds, see "PLAN OF FINANCE."

The following table shows the statutory general obligation bond authorization and all GO Bonds outstanding as of April 30, 2003.

**Table 6**

**GENERAL OBLIGATION BONDS**
**(As of April 30, 2003)**

| | Amount Authorized | Amount Issued | Authorized Unissued | Amount Outstanding |
|---|---|---|---|---|
| Anti-Pollution | $ 599,000,000 | $ 599,000,000 | $ 0 | $ 37,160,000 |
| Pension Funding | 10,000,000,000 | 0 | 10,000,000,000 | 0 |
| Multi-purpose | 17,658,149,369 | 11,173,386,352 | 6,484,763,017 | 6,695,901,076 |
| Subtotal – New Money | $28,257,149,369 | $11,772,386,352 | $16,484,763,017 | $6,733,061,076 |
| Refunding[1] | 2,839,025,000 | 3,348,399,239 | 1,157,180,086 | 1,681,844,914 |
| Total – New and Refunding | $31,096,174,369 | $15,120,785,591 | $17,641,943,103 | $8,414,905,990 |

[1]The State is authorized to issue $2,839,025,000 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.

Note: Columns may not add due to rounding

Pursuant to the Bond Act, amounts in the Anti-Pollution bond retirement and interest fund were transferred to and consolidated in the GOBR&I Fund. The GOBR&I Fund is used to make debt service payments on outstanding GO Bonds issued for these purposes, on multiple purpose and refunding bonds issued under the Bond Act, and on short term certificates issued as described above under “SHORT TERM DEBT.”

As of April 30, 2003, a total of $661.4 million was available in the GOBR&I Fund. Since these moneys are not segregated as to amounts of principal and interest, the amounts of outstanding GO Bonds shown above have not been reduced by this $661.4 million.

**Historical and Anticipated Borrowing**

The following table summarizes the level of bond sales from fiscal years 1999 to 2003.

**Table 7**

**GENERAL OBLIGATION BOND SALES[1]**
**($ in Millions)**

| Fiscal Year | Amount Issued |
|---|---|
| 1999 | 603 |
| 2000 | 860 |
| 2001 | 1,165 |
| 2002 | 1,500 |
| 2003[a] | 1,252 |

[1]Excludes sales of general obligation refunding bonds, the Bonds and the $460 million of additional GO Bonds which the State issued on June 4, 2003 as described below.
[a]Bureau estimate.

The State issued additional GO Bonds in the amount of $460 million for capital purposes on June 4, 2003. In addition, the 2004 fiscal year budget of the State reflects the issuance of approximately $1.6 billion in GO Bonds for capital purposes during the next 12 months, the net proceeds of which would be used primarily to fund prior projects in progress.

**Indebtedness in Prior Years**

The following table shows the outstanding general obligation indebtedness of the State at the end of each fiscal year from 1999 through 2003.

**Table 8**

**GENERAL OBLIGATION BONDS OUTSTANDING[1]**
**FISCAL YEARS 1999-2003**
**($ in Millions)**

| End of Fiscal Year | General Obligation Bonds |
|---|---|
| 1999 | 5,456.3 |
| 2000 | 5,885.8 |
| 2001 | 6,600.0 |
| 2002 | 7,629.9 |
| 2003[a] | 8,350.6 |

[1]Excludes the Bonds and the $460 million of additional GO Bonds which the State issued on June 4, 2003. See "Historical and Anticipated Borrowing" above.
[a]Bureau estimate.

**Debt Service Payments**

Debt service of the State's GO Bonds is paid from the GOBR&I Fund. The GOBR&I Fund receives transfers from the Road Fund to pay debt service on bonds issued for Transportation A purposes (highways), from the School Infrastructure Fund and the General Revenue Fund to pay debt service on bonds issued under Section 5(e) of the Bond Act and from the General Revenue Fund to pay debt service on bonds issued for all other purposes.

The following table shows debt service payments on GO Bonds from fiscal year 1999 through 2003 and the funds from which the transfers originate.

**Table 9**

**GENERAL OBLIGATION BONDS**
**DEBT SERVICE PAYMENTS[1]**
**($ in Millions)**

| | FY 99 | FY 00 | FY 01 | FY 02 | FY 03[a] |
|---|---|---|---|---|---|
| Road Fund | 186.5 | 180.3 | 198.3 | 195.7 | 215.0 |
| School Infrastructure Fund | 6.7 | 21.2 | 49.4 | 73.2 | 127.5 |
| General Funds | 497.5 | 515.6 | 542.8 | 582.6 | 630.8 |
| Total | 690.7 | 717.1 | 790.5 | 851.5 | 973.3 |

[1]Principal and interest paid on outstanding GO bonds. Excludes the Bonds and the $460 million of additional GO Bonds which the State issued on June 4, 2003. See "Historical and Anticipated Borrowing" above.
[a]Bureau estimate.

**Measures of Debt Burden**

Tables 10, 11, 12 and 13 show various measures of the relative burden of the State's general obligation debt and debt service.

**Table 10**

**RATIO OF GENERAL OBLIGATION DEBT SERVICE TO TOTAL EXPENDITURES FISCAL YEARS 1999-2003**

| Fiscal Year | Total Expenditures[1] ($ in Millions) | G.O. Debt Service as % of Total Expenditures |
|---|---|---|
| 1999 | 23,110 | 2.99 |
| 2000 | 24,886 | 2.88 |
| 2001 | 26,354 | 3.00 |
| 2002 | 26,286 | 3.24 |
| 2003[a] | 25,984 | 3.75[2] |

[1]Includes expenditures from the general funds and the Road Fund.
[2]Excludes the Bonds and the $460 million of additional GO Bonds which the State issued on June 4, 2003. See "Historical and Anticipated Borrowing" above.
[a]Bureau estimate.

**Table 11**

**RATIO OF GENERAL OBLIGATION DEBT TO ILLINOIS PERSONAL INCOME FISCAL YEARS 1999-2003**

| Fiscal Year | Illinois Personal Income[1] ($ in Billions) | G.O. Debt as a % of Personal Income[2] |
|---|---|---|
| 1999 | 368.4 | 1.48 |
| 2000 | 386.1 | 1.52 |
| 2001 | 409.5 | 1.61 |
| 2002 | 414.5 | 1.84 |
| 2003[a] | 427.1 | 1.96[3] |

[1]U.S. Department of Commerce, Bureau of Economic Analysis.
[2]See Table 8 for general obligation indebtedness.
[3]Excludes the Bonds and the $460 million of additional GO Bonds which the State issued on June 4, 2003. See "Historical and Anticipated Borrowing" above.
[a]Bureau estimate.

## Table 12

### GENERAL OBLIGATION DEBT PER CAPITA
### FISCAL YEARS 1999-2003

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Population (in thousands)[1] | 12,128 | 12,463 | 12,482 | 12,532[a] | 12,582[a] |
| General Obligation Debt per Capita[2] | $450 | $473 | $529 | $609 | $664[3] |

[1]Population figures are based on actual census data (1990 and 2000) and estimates from the U.S. Department of Commerce, Bureau of the Census, December 2001 press release.
[2]Figures for debt were taken from Table 8.
[3]Excludes the Bonds and the $460 million of additional GO Bonds which the State issued on June 4, 2003. See "Historical and Anticipated Borrowing" above.
[a]Bureau estimate.

## Table 13

### THE RATIO OF G. O. DEBT TO EQUALIZED ASSESSED VALUATION
### FISCAL YEARS 1997-2001[a]

| | 1997 | 1998 | 1999 | 2000 | 2001[1] |
|---|---|---|---|---|---|
| General Obligation Debt to Equalized Assessed Valuation | 3.08% | 3.03% | 2.83% | 3.04% | 3.22% |

[1]2001 percentage is a projection based upon the 2000 percentage.
[a]Equalized assessed valuation, as shown on the succeeding table, is reported on a calendar year basis. The ratios are computed using outstanding debt figures from Table 8 at the end of each fiscal year and the assessed valuation for the preceding calendar year. The equalized assessed valuation for fiscal year 2001 is not yet available.

### EQUALIZED ASSESSED VALUATIONS
### ($ in Millions)

| Calendar Year | Total |
|---|---|
| 1997 | 173,813 |
| 1998 | 192,726 |
| 1999 | 193,734 |
| 2000 | 204,931 |

Source: Illinois Department of Revenue, Illinois Property Tax Statistics, 2000, December 2002.

Under the Illinois Constitution, the State is authorized to enact legislation to levy a direct annual tax upon all real property subject to taxation within the State; however, since 1934, the State has neither imposed a state property tax nor found it necessary to collect such a tax to service any of its outstanding GO Bonds.

**Table 14**

**MATURITY SCHEDULE--GENERAL OBLIGATION BONDS**[1]

**(As of June 12, 2003)**

| Fiscal Year Ending June 30 | Anti-Pollution | Multiple Purpose | Refunding | Total Principal | Total Interest | Total Debt Service |
|---|---|---|---|---|---|---|
| 2004 | $ 9,960,000 | $ 366,470,171 | $ 151,738,486 | $ 528,168,657 | $ 986,969,501 | $ 1,515,138,157 |
| 2005 | 7,160,000 | 399,075,300 | 124,965,223 | 531,200,524 | 989,276,899 | 1,520,477,423 |
| 2006 | 6,160,000 | 398,766,803 | 119,313,084 | 524,239,887 | 976,775,902 | 1,501,015,789 |
| 2007 | 4,960,000 | 363,704,579 | 117,128,057 | 485,792,635 | 963,581,004 | 1,449,373,639 |
| 2008 | 4,560,000 | 409,484,415 | 121,355,980 | 535,400,394 | 952,594,697 | 1,487,995,091 |
| 2009 | 2,360,000 | 374,584,325 | 124,886,818 | 501,831,142 | 942,853,561 | 1,444,684,704 |
| 2010 | 800,000 | 387,436,314 | 123,928,438 | 512,164,753 | 887,516,712 | 1,399,681,465 |
| 2011 | 0 | 343,361,202 | 139,728,829 | 483,090,031 | 875,071,887 | 1,358,161,918 |
| 2012 | 0 | 378,533,439 | 141,145,000 | 519,678,439 | 828,296,960 | 1,347,975,399 |
| 2013 | 0 | 378,945,751 | 121,800,000 | 500,745,751 | 787,784,805 | 1,288,530,556 |
| 2014 | 0 | 378,734,607 | 109,980,000 | 488,714,607 | 742,232,721 | 1,230,947,328 |
| 2015 | 0 | 400,355,720 | 86,420,000 | 486,775,720 | 696,797,765 | 1,183,573,484 |
| 2016 | 0 | 427,511,341 | 56,070,000 | 483,581,341 | 675,019,703 | 1,158,601,044 |
| 2017 | 0 | 451,801,341 | 38,690,000 | 490,491,341 | 645,905,065 | 1,136,396,406 |
| 2018 | 0 | 469,722,806 | 38,510,000 | 508,232,806 | 610,513,853 | 1,118,746,659 |
| 2019 | 0 | 477,847,317 | 31,525,000 | 509,372,317 | 582,835,033 | 1,092,207,350 |
| 2020 | 0 | 521,216,629 | 16,510,000 | 537,726,629 | 560,278,533 | 1,098,005,163 |
| 2021 | 0 | 569,375,883 | 0 | 569,375,883 | 527,199,755 | 1,096,575,638 |
| 2022 | 0 | 590,152,410 | 0 | 590,152,410 | 489,679,665 | 1,079,832,075 |
| 2023 | 0 | 603,437,922 | 0 | 603,437,922 | 465,251,490 | 1,068,689,413 |
| 2024 | 0 | 657,838,968 | 0 | 657,838,968 | 428,430,220 | 1,086,269,188 |
| 2025 | 0 | 709,663,835 | 0 | 709,663,835 | 396,295,790 | 1,105,959,625 |
| 2026 | 0 | 736,610,000 | 0 | 736,610,000 | 357,448,375 | 1,094,058,375 |
| 2027 | 0 | 762,095,000 | 0 | 762,095,000 | 320,256,000 | 1,082,351,000 |
| 2028 | 0 | 781,175,000 | 0 | 781,175,000 | 282,063,750 | 1,063,238,750 |
| 2029 | 0 | 775,000,000 | 0 | 775,000,000 | 243,525,000 | 1,018,525,000 |
| 2030 | 0 | 875,000,000 | 0 | 875,000,000 | 204,000,000 | 1,079,000,000 |
| 2031 | 0 | 975,000,000 | 0 | 975,000,000 | 159,375,000 | 1,134,375,000 |
| 2032 | 0 | 1,050,000,000 | 0 | 1,050,000,000 | 109,650,000 | 1,159,650,000 |
| 2033 | 0 | 1,100,000,000 | 0 | 1,100,000,000 | 56,100,000 | 1,156,100,000 |
| TOTAL | $35,960,000 | $17,112,901,076 | $1,663,694,914 | $18,812,555,990 | $17,743,579,647 | $36,556,135,637 |

Note: Columns may not add due to rounding.

[1] Assumes issuance of the Bonds as of June 12, 2003, and includes debt service requirements for the Bonds.

**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 15 identifies the type and current level of revenue bonded indebtedness. A description of each bond program follows the table.

**Table 15**

**REVENUE BONDS**
**(As of April 30, 2003)**
**($ in Millions)**

| | Revenue Bonds Outstanding |
|---|---|
| Build Illinois (Sales Tax Revenue Bonds) | $1,945.3 |
| Metropolitan Exposition and Auditorium Authorities - Civic Center Program | 142.3 |
| Metropolitan Pier and Exposition Authority - Dedicated State Tax Revenue Bonds | 270.9 |
| Metropolitan Pier and Exposition Authority - McCormick Place Expansion Project and Refunding Bonds | 2,300.2 |
| Illinois Sports Facilities Authority | 479.2 |
| Certificates of Participation | 32.1 |
| | $5,170.0 |

**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 $3,806 million.

The Build Illinois Fund receives 3.8 percent 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 amount equal to the deficiency will be paid from the State's sales tax collections. Subject to market conditions, the State anticipates issuing up to $125 million Build Illinois Bonds in fiscal year 2003. In addition, the 2004 fiscal year budget provides for $250 million of Build Illinois Bonds to be issued by the State in fiscal year 2004.

Build Illinois Bonds are limited obligations of the State payable solely from the specified State 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 tax revenues pledged to the bonds.

**Metropolitan Exposition and Auditorium Authorities - Civic Center Program**

In 1989, the Bureau 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 - Dedicated State Tax Revenue Bonds**

Legislation effective in July 1984 dedicated a revenue stream from a variety of State sources to provide financing for the North Building expansion of the McCormick Place complex in Chicago and to redeem outstanding Exposition Building Revenue Bonds. These bonds are secured primarily by revenues from State sales and hotel taxes. The Dedicated State Tax Revenue Bonds are special obligations of the Metropolitan Pier and Exposition Authority ("**MPEA**"); neither the full faith and credit nor the taxing power of the State, other than the specific dedicated taxes, is pledged to the payment of the principal or interest on the bonds. Debt service on the bonds is subject to annual appropriation.

In 1989, legislation expanded the purposes of the MPEA to include the development of Navy Pier in Chicago. To reflect this change, the legislation also changed the name of the MPEA and its governing board.

**Metropolitan Pier and Exposition Authority - Expansion Project Bonds**

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. To date, receipts from the MPEA taxes have been sufficient to meet all debt service requirements.

**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 (the "**1989 ISFA Bonds**"), 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**"). As of April 30, 2003, $80.2 million of the 1999 ISFA Bonds remain outstanding.

On October 12, 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 and (ii) an advance of State hotel tax revenues in the amount of $23.425 million in fiscal year 2003, increasing by 5.615% each fiscal year thereafter, which advance is required to be repaid annually by receipts derived from a two percent 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 allocable 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 addition, ISFA has agreed with the Chicago White Sox that it will use commercially reasonable efforts to issue approximately $40 million of additional revenue bonds (the "**2003 ISFA Bonds**") to finance a portion of certain renovations to U.S. Cellular Field scheduled to begin later this year. ISFA intends that the 2003 ISFA Bonds will be payable from the same revenue sources as the 1999 ISFA Bonds and the 2001 ISFA Bonds.

**Certificates of Participation**

Pursuant to 30 ILCS 105/9, the State, acting through the Bureau, is authorized to issue $125 million of certificates of participation for the acquisition of real property. Pursuant to this authorization, the State has issued two series of certificates, $21.0 million in October 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.

In addition, the State has obligations in the form of agricultural loan guarantees issued through the Illinois Farm Development Authority ("**IFDA**"). IFDA may have up to $210 million in outstanding loans, of which eighty-five percent is guaranteed by the State. As of April 30, 2003, IFDA had $106.0 million in outstanding loans, of which 85 percent is guaranteed by the State.

## Table 16
## MATURITY SCHEDULE--REVENUE BONDS
## (As of April 30, 2003)

| Fiscal Year Ending June 30 | Build Illinois | MPEA DSTRB | MPEA Expansion Project Bonds | Civic Center Program | Sports Facilities Authority | Illinois Certificates of Participation | Total Principal | Total Interest | Total Debt Service |
|---|---|---|---|---|---|---|---|---|---|
| 2003 | $ 88,406,564 | $ 15,530,000 | $ 10,675,000 | $ 0 | $ 8,465,000 | $ 0 | $ 123,076,564 | $ 135,579,923 | $ 258,656,487 |
| 2004 | 89,722,600 | 16,545,000 | 28,710,000 | 6,160,000 | 8,805,000 | 1,425,000 | 151,367,600 | 209,869,178 | 361,236,778 |
| 2005 | 98,107,836 | 17,595,000 | 36,585,000 | 6,455,000 | 9,245,000 | 1,500,000 | 169,487,836 | 197,248,861 | 366,736,697 |
| 2006 | 101,811,275 | 18,715,000 | 22,716,705 | 6,790,000 | 9,705,000 | 1,580,000 | 161,317,980 | 210,034,915 | 371,352,895 |
| 2007 | 111,222,627 | 19,920,000 | 50,741,928 | 7,175,000 | 10,190,000 | 1,660,000 | 200,909,555 | 184,640,633 | 385,550,188 |
| 2008 | 115,137,846 | 21,170,000 | 33,085,032 | 7,610,000 | 10,841,388 | 1,750,000 | 189,594,266 | 211,499,466 | 401,093,732 |
| 2009 | 112,251,350 | 22,515,000 | 40,491,052 | 8,100,000 | 12,331,033 | 1,850,000 | 197,538,434 | 209,241,300 | 406,779,734 |
| 2010 | 114,725,756 | 24,015,000 | 50,821,819 | 8,595,000 | 13,810,316 | 1,945,000 | 213,912,891 | 198,403,893 | 412,316,784 |
| 2011 | 109,909,169 | 25,595,000 | 63,169,090 | 9,085,000 | 2,041,432 | 2,055,000 | 211,854,692 | 196,233,410 | 408,088,102 |
| 2012 | 107,078,399 | 26,735,000 | 36,347,441 | 9,555,000 | 2,947,861 | 2,170,000 | 184,833,702 | 223,261,339 | 408,095,041 |
| 2013 | 113,727,124 | 28,145,000 | 36,411,366 | 10,095,000 | 3,797,354 | 2,305,000 | 194,480,844 | 222,090,468 | 416,571,312 |
| 2014 | 114,299,306 | 29,600,000 | 35,906,812 | 10,705,000 | 4,594,695 | 2,440,000 | 197,545,813 | 216,063,960 | 413,609,773 |
| 2015 | 125,471,038 | 4,850,000 | 36,149,751 | 11,415,000 | 5,347,832 | 2,590,000 | 185,823,621 | 217,516,121 | 403,339,742 |
| 2016 | 103,795,000 | 0 | 45,756,956 | 12,020,000 | 6,063,337 | 2,750,000 | 170,385,293 | 203,003,801 | 373,389,094 |
| 2017 | 88,150,000 | 0 | 49,980,228 | 5,488,409 | 6,716,095 | 2,915,000 | 153,249,733 | 211,543,820 | 364,793,553 |
| 2018 | 77,335,000 | 0 | 49,937,243 | 5,668,835 | 4,770,418 | 3,140,000 | 140,851,496 | 221,619,195 | 362,470,691 |
| 2019 | 74,355,000 | 0 | 57,060,083 | 5,875,462 | 4,829,442 | 0 | 142,119,987 | 223,239,353 | 365,359,340 |
| 2020 | 45,040,000 | 0 | 65,149,453 | 6,103,026 | 5,067,726 | 0 | 121,360,206 | 225,086,899 | 346,447,105 |
| 2021 | 32,980,000 | 0 | 104,087,400 | 5,405,000 | 5,279,845 | 0 | 147,752,245 | 190,880,789 | 338,633,034 |
| 2022 | 51,810,000 | 0 | 80,998,012 | 0 | 5,472,537 | 0 | 138,280,549 | 228,695,628 | 366,976,177 |
| 2023 | 14,000,000 | 0 | 140,142,495 | 0 | 5,651,172 | 0 | 159,793,667 | 184,698,454 | 344,492,121 |
| 2024 | 14,000,000 | 0 | 80,186,436 | 0 | 5,813,953 | 0 | 100,000,388 | 246,852,739 | 346,853,127 |
| 2025 | 14,000,000 | 0 | 85,227,449 | 0 | 5,916,669 | 0 | 105,144,118 | 244,280,695 | 349,424,813 |
| 2026 | 14,000,000 | 0 | 143,681,189 | 0 | 11,715,731 | 0 | 169,396,920 | 182,800,574 | 352,197,494 |
| 2027 | 14,000,000 | 0 | 185,710,836 | 0 | 28,327,372 | 0 | 228,038,208 | 127,271,180 | 355,309,388 |
| 2028 | 0 | 0 | 162,087,687 | 0 | 32,430,797 | 0 | 194,518,485 | 150,030,172 | 344,548,657 |
| 2029 | 0 | 0 | 169,405,321 | 0 | 36,915,210 | 0 | 206,320,531 | 142,547,456 | 348,867,987 |
| 2030 | 0 | 0 | 10,277,690 | 0 | 52,405,825 | 0 | 62,683,515 | 290,800,810 | 353,484,325 |
| 2031 | 0 | 0 | 9,145,954 | 0 | 75,355,000 | 0 | 84,500,954 | 273,831,221 | 358,332,175 |
| 2032 | 0 | 0 | 8,140,997 | 0 | 84,295,000 | 0 | 92,435,997 | 271,068,428 | 363,504,425 |
| 2033 | 0 | 0 | 7,243,844 | 0 | 0 | 0 | 7,243,844 | 267,750,831 | 274,994,675 |
| 2034 | 0 | 0 | 6,447,732 | 0 | 0 | 0 | 6,447,732 | 268,546,943 | 274,994,675 |
| 2035 | 0 | 0 | 5,737,216 | 0 | 0 | 0 | 5,737,216 | 269,257,459 | 274,994,675 |
| 2036 | 0 | 0 | 5,107,150 | 0 | 0 | 0 | 5,107,150 | 269,887,525 | 274,994,675 |
| 2037 | 0 | 0 | 4,545,622 | 0 | 0 | 0 | 4,545,622 | 270,449,053 | 274,994,675 |
| 2038 | 0 | 0 | 4,043,951 | 0 | 0 | 0 | 4,043,951 | 270,950,724 | 274,994,675 |
| 2039 | 0 | 0 | 3,600,523 | 0 | 0 | 0 | 3,600,523 | 271,394,152 | 274,994,675 |
| 2040 | 0 | 0 | 3,202,467 | 0 | 0 | 0 | 3,202,467 | 271,792,208 | 274,994,675 |
| 2041 | 0 | 0 | 66,137,223 | 0 | 0 | 0 | 66,137,223 | 208,857,452 | 274,994,675 |
| 2042 | | 0 | 265,360,000 | 0 | 0 | 0 | 265,360,000 | 9,638,738 | 274,998,738 |
| Total | $1,945,335,890 | $270,930,000 | $2,300,212,152 | $142,300,732 | $479,148,040 | $32,075,000 | $5,170,001,814 | $8,628,459,768 | $12,798,461,582 |

Note: Columns may not add due to rounding.

**MORAL OBLIGATION BONDS**

Currently, nine 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 moneys of 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 17**

**Moral Obligation Bond Authorities' Debt**[1]
**(As of April 30, 2003)**
**($ in Millions)**

| | Moral Obligation Bonds Outstanding |
|---|---|
| Illinois Housing Development Authority | $ 311.1 |
| Southwestern Illinois Development Authority | 68.3 |
| Quad Cities Regional Economic Development Authority | 13.0 |
| Illinois Rural Bond Bank | 65.5 |
| Upper Illinois River Valley Development Authority | 24.4 |
| Tri-County River Valley Development Authority | 0.0 |
| Will-Kankakee Regional Development Authority | 0.0 |
| Illinois Development Finance Authority[2] | 16.2 |
| Illinois Research Park Authority | 0.0 |
| Total | $ 498.5 |

[1]The amounts listed include only those bonds issued under the moral obligation pledge.
[2]IDFA is authorized to issue moral obligation bonds only to fund loans to financially distressed cities, as defined by the Financially Distressed City Law (65 ILCS 5/8-12-1 et seq.). Currently, East St. Louis is the only city in the State that qualifies.

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. To date, such amounts requested from the State have not been material. 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.

## PENSION SYSTEMS

The State has five Retirement Systems: the State Employees' Retirement System of Illinois (the "**SERS**"), the Teachers' Retirement System of the State of Illinois (the "**TRS**"), the State Universities Retirement System (the "**SURS**"), the Judges Retirement System of Illinois (the "**JRS**"), and the General Assembly Retirement System (the "**GARS**"). The Retirement Systems provide benefits upon retirement, death or disability to employees and beneficiaries.

Members of each Retirement System contribute a portion of their annual salary for retirement purposes. The contribution rate ranges from 4 to 11.5 percent depending on the fund to which contributions are deposited and whether or not the member participates in the Federal Social Security program. Benefits paid to retirees generally are based on a fixed benefit plan. Under this type of plan, benefits are generally computed as a percentage of final average salary multiplied by the number of years of service of the employee.

The following chart sets forth the number of participants, assets, liabilities and UAAL for each individual Retirement System.

**Retirement Systems' Pension Fund Statistics**
**(As of June 30, 2002)**

| | Participants | | | | ($ in millions) | | |
|---|---|---|---|---|---|---|---|
| **Retirement System** | **Active** | **Inactive/Entitled to Benefits** | **Retirees and Beneficiaries** | **Total** | **Assets[1]** | **Liabilities[2]** | **UAAL** |
| TRS | 155,979 | 66,971 | 67,949 | 290,899 | $ 22,366.3 | $ 43,047.7 | $ 20,681.4 |
| SURS | 72,778 | 52,458 | 34,259 | 159,495 | 9,814.7 | 16,654.0 | 6,839.3 |
| SERS | 81,860 | 48,772 | 44,557 | 175,189 | 7,673.9 | 14,291.0 | 6,617.1 |
| JRS | 909 | 35 | 838 | 1,782 | 343.7 | 1,020.8 | 677.1 |
| GARS | 181 | 105 | 353 | 639 | 54.1 | 184.6 | 130.5 |
| TOTAL FY 2002 | 311,707 | 168,341 | 147,956 | 628,004 | $40,252.7 | $75,198.1 | $34,945.4 |

[1]Net assets are reported at fair market value per Governmental Accounting Standards Board Statement 25.
[2]Actuarially determined accrued cost of projected benefits.

**DESCRIPTIONS OF RETIREMENT SYSTEMS**

**Teachers' Retirement System of the State of Illinois**

The General Assembly created the TRS in 1939. TRS administers a cost-sharing, multiple-employer public pension plan and provides its members with retirement, disability and survivor benefits. Generally, members of TRS include all full-time, part-time and substitute Illinois public school personnel, excluding personnel employed within the city of Chicago, in positions requiring certification by the Illinois State Board of Education. Individuals employed in certain state agencies relating to education are also members of TRS.

As of June 30, 2002, there were 155,979 active members and 66,971 inactive members entitled to benefits. In addition, 67,949 retirees and beneficiaries were receiving benefits. Funding for TRS benefit programs is obtained from member contributions, TRS-covered employers contributions, the State, and investment income. The TRS Board of Trustees annually certifies a minimum State contribution based on the statutory formula. The State is obligated to pay this amount on a continuing appropriation. For fiscal year 2003, the State is making a contribution of $930 million. Moreover, TRS uses outside investment managers, a general consultant and TRS staff to invest the trust assets in accordance with investment guidelines established by the Board of Trustees and the fiduciary standards imposed by state law. Upon termination of service, a member is entitled to a refund of total contributions to TRS. The refund does not include interest or contributions for survivor benefits. By accepting a refund, the member forfeits rights to benefits from TRS.

**General Assembly Retirement System**

The GARS provides retirement annuities, survivors' annuities and other benefits for members of the General Assembly, certain elected state officials and their beneficiaries.

In 2002, the total membership of GARS was 286. There were 181 active members and 105 inactive members entitled to benefits. Moreover, 353 retirees and beneficiaries were receiving annuities. Contributions are made by members, employers and returns from the investment of trust assets. For fiscal year 2003, the State is making a contribution of $5.2 million. Upon termination of service, a member is entitled to a refund of total contributions to GARS, without interest. Acceptance of a refund forfeits all accrued rights and benefits by the member and his or her beneficiaries.

**State Employees Retirement System of Illinois**

The SERS provides retirement, disability and survivor benefits for, generally, all persons entering state service after serving a six-month qualifying period, unless their position is subject to membership in another state supported system.

In 2002, the total membership of SERS was 103,846. There were 81,680 active members and 48,772 inactive members entitled to benefits. Moreover, 44,557 retirees and beneficiaries were receiving annuities. As of January 2002, most employers now pay all or part of the required employee contributions on behalf of its employees. Contributions are also made by members, employers and returns from the investment of trust assets. For fiscal year 2003, the State is making a contribution of $398.9 million. Upon termination of service, a member is entitled to a refund of total contributions to SERS, without interest. Acceptance of a refund forfeits all accrued rights and benefits by the member and his or her beneficiaries.

**Judges' Retirement System of Illinois**

The JRS provides retirement annuities, survivors' annuities and other benefits for persons elected or appointed as a judge or associate judge of a court.

In 2002, the total membership of JRS was 944. There were 909 active members and 35 inactive members entitled to benefits. Moreover, 838 retirees and beneficiaries were receiving annuities. Contributions are made by members, employers and returns from the investment of trust assets. For fiscal year 2003, the State is making a contribution of $31.4 million. Upon termination of service, a member is entitled to a refund of total contributions to JRS, without interest. Acceptance of a refund forfeits all accrued rights and benefits by the member and his or her beneficiaries.

**State Universities Retirement System**

The SURS generally provides retirement, disability and survivor benefits for all permanent status employees with an appointment of 4 months or one academic term, whichever is less. Employees now have the option of selecting the type of account into which their money is deposited. The three options are: (1) the traditional benefits plan, (2) the portable benefits plan, and (3) the self-managed benefits plan. In 2002, there were 72,778 active members in SURS, with 52,458 inactive members entitled to benefits. An additional 34,259 retirees and beneficiaries were receiving annuities.

Under the traditional benefits plan, the State and members contribute to the retirement fund for each employee. The amount of the employer's contribution is determined each year dependent on many variables but usually ranges between 8 and 10%. For fiscal year 2003, the State is making a contribution of $252.8 million to this plan. Upon termination of services, a member may receive a refund consisting of the amount of the member's contribution plus interest credited (not to exceed 4.5%). Any employer or State matching funds will be forfeited.

Under the portable benefits plan, the State and members contribute to the retirement fund for each employee. The amount of the employer's contribution is determined each year dependent on many variables but usually ranges between 8 and 10%. For fiscal year 2003, the State is making a contribution of $42.0 million to this plan. Upon termination of services, with less than 5 years of service credit, a member is entitled to receive a refund consisting of total contributions plus the full effective rate of interest that has accumulated on the contributions. Upon termination of services with 5 or more years of qualified service, a member may receive a refund consisting of contributions plus interest and an equal match from the State.

Under the self-managed plan, the State and members contribute to the retirement fund of each employee. For fiscal year 2003, the State is making a contribution of $16.9 million to this plan. Upon termination of services with less than 5 years of service, a member forfeits the State contributions. Upon termination of services with 5 or more years of service, a member may receive his or her account balance in a lump sum.

**FUNDING FOR RETIREMENT SYSTEMS**

One measure of the fiscal condition of retirement systems, the degree of funding or the funding ratio, is the ratio of net assets to total liabilities. Table 18 summarizes the degree of funding for the Retirement Systems from fiscal year 1998 through fiscal year 2002.

**Table 18**

**PENSION SYSTEMS**
**DEGREE OF FUNDING**
**FISCAL YEARS 1998-2002**
**($ in Millions)**

| Fiscal Year | Total Assets[1] | Total Liabilities[2] | Ratio (%) |
|---|---|---|---|
| 1998 | 37,241.8 | 51,563.9 | 72.2 |
| 1999 | 41,442.4 | 56,787.7 | 73.0 |
| 2000 | 45,949.7 | 61,518.9 | 74.7 |
| 2001 | 42,789.3 | 67,768.9 | 63.1 |
| 2002 | 40,252.7 | 75,198.1 | 53.5 |

[1]Net assets are reported at fair market value per Governmental Accounting Standards Board Statement 25.
[2]Actuarially determined accrued cost of projected benefits.

In fiscal year 2002, State appropriations and contributions for the Retirement Systems totaled $1,464 million. In fiscal year 2003, State appropriations and expected contributions will total $1,635 million. In fiscal year 2004, in addition to its then current obligations to the Retirement Systems for fiscal year 2004 in the amount of $1.86 billion, the State is expected to appropriate approximately $7 billion to the Retirement Systems, which amount equals the net proceeds remaining in the Pension Contribution Fund following the issuance of the Bonds and the transfer of the Reimbursement Amounts. See "PLAN OF FINANCE."

Table 18 reflects the fair market value of the total assets of the Retirement Systems and the actuarially determined accrued cost of projected benefits of the Retirement Systems as of the fiscal years of the State contained therein. The UAAL has increased from time to time as a result of State legislation increasing benefits to participants in the Retirement Systems and the declining performance of investments held within each such Retirement System. Notwithstanding the foregoing, no assurance can be given that the actuarial assumptions underlying the calculations of total liabilities of the Retirement Systems or underlying the calculations of the total assets of the Retirement Systems due to a reduced reinvestment rate on the Retirement Systems' investment portfolio could not be modified in a material manner from time to time in the future. Such modification could result in a significant increase in the UAAL of the Retirement Systems and, therefore, a significant increase in the obligations of the State. In addition, the UAAL may be affected by certain other factors, including, without limitation, inflation, changes in the Pension Code, and changes in benefits provided or in the contribution rates of the State.

Legislation in 1994 established an actuarially-based funding method for the Retirement Systems. Pursuant to this law, the State's percent of payroll contribution to each Retirement System began increasing in fiscal year 1996 and is scheduled to increase each year through fiscal year 2010. In fiscal years 2011 through 2045, the State's contribution is scheduled to level off to an equal percentage of payroll as necessary to amortize 90 percent of the Retirement Systems' unfunded liabilities by the end of the 50-year period. Public Act 93-2 provides that for each fiscal year, beginning in fiscal year 2005, the State's contribution to each of the Retirement Systems shall not exceed an amount equal to: (i) the amount of the required State contribution that would have been calculated for that fiscal year if the Retirement System had not received any payments of Bond proceeds for UAALs, minus (ii) the portion of the total debt service payments for the fiscal year on the Bonds that is the same as the portion of the total Bond proceeds for UAALs distributed to Retirement System.

The 1994 amendments to the Pension Code also provided for continuing appropriations for the Retirement Systems beginning in fiscal year 1996. In the event that the General Assembly fails to appropriate the amounts certified by the Retirement Systems, the Act provides for payments to be made by the Comptroller and the Treasurer in amounts sufficient to meet the requirements of the Act. As described above in "PLAN OF FINANCE", the net proceeds of the Bonds are to be used, in part, to fund a portion of the State's contribution to each Retirement System.

In 1997, legislation was enacted that significantly affected the State pension systems. The Pension Code requires the State retirement systems to carry investments "at a value determined in accordance with generally accepted accounting principles." This language enabled the State to comply with the Governmental Accounting Standards Board Statement 25, requiring public pension systems to report assets on a market value basis. The Pension Code was further amended to change the step-rate pension benefit formulas in the SERS and the SURS to a more generous flat-rate formula that began January 1, 1998. This amendment did not alter the SERS alternative pension formula rates covering State Police, Department of Corrections and other State security personnel; but it allowed the pension for all such employees to be calculated based on an employee's salary on the last day of pay.

To defray the cost of the benefit increases, these amendments ended the accumulation of compensable sick leave by State and university employees and required future retirees with less than 20 years of service to pay a share of their group health insurance costs. In addition to the sick leave and health insurance offsets, SERS members covered by the regular pension formula did not receive a cost-of-living salary adjustment in fiscal year 1998. The costs of the pension enhancements are fully funded as a level percent of payroll amortized from the date of the formula change through fiscal year 2045.

SURS is the plan sponsor and administrator of a defined contribution plan called the Self Managed Plan ("**SMP**") established as of January 1, 1998. SMP is a qualified money purchase pension plan under Section 401(a) of the Internal Revenue Code. The assets of the SMP are maintained under a trust administered by the SURS Board of Trustees in accordance with the Pension Code. This plan is offered to employees of all SURS employers who elect to participate. It is estimated that approximately 3,000 new employees per year will elect the SMP. Existing employees were given a one-year period in which to make their irrevocable election to transfer to the SMP.

In 1998, the step-rate pension benefit formula in TRS was replaced with a more generous 2.2 flat-rate formula for credit earned beginning July 1, 1998. Members can make voluntary payments to upgrade service under the previous step-rate formula.

In May 2000, the Union Bargaining Committee, which represents the American Federation of State, County and Municipal Employees, executed a new contract with the State. In addition to a traditional settlement on the issue of wages and salaries, the new contract included a number of pension considerations that required approval by the General Assembly. The "Rule of 85", which was approved pursuant to Public Act 91-927, allows an employee with any combination of age and years of service that totals 85 to retire without any penalty. Previously, employees had to be 60 years of age or have 35 years of service credit to retire with full benefits. Public Act 92-14, effective June 28, 2001, contained the remaining pension provisions of the new contract. The bill upgrades the alternative formula to 2.5 percent for all years of service for a coordinated employee and to 3.0 percent for all years for non-coordinated employees. It increased the maximum annuity from 75 percent to 80 percent of final average salary and expanded eligibility for the alternative formula to include certain employees within the Department of Human Services. These pension enhancements are expected to reduce the system's funded ratio by approximately two percent.

Public Act 92-566, effective June 25, 2002, allows eligible State employees to purchase up to 60 months of service in order to qualify for early retirement. To be eligible, a State employee must be on active payroll in June 2002, or on lay-off status with a right of re-employment or recall, or on disability leave for not more than two years, and have a minimum of eight years of creditable service exclusive of service time established by Public Act 92-566 and not previously retired under Article 14 or Article 16-133.3 of the Pension Code. Contractual employment with the State by a person who elects the early retirement incentive is prohibited other than as a 75-day temporary employee. This act establishes that the unfunded liability from this early retirement initiative shall be amortized over a 10-year period. The fiscal year 2004 State contribution will be $70 million and the remainder shall be amortized in equal payments during the next 9 years. Approximately 10,500 employees took advantage of this retirement option.

**FINANCIAL DATA FOR RETIREMENT SYSTEMS**

The tables that follow provide information on the assets, liabilities, income and expenses for each Retirement System for fiscal years 1998 through 2002. The data were obtained from the audited financial statements of the Retirement Systems.

**Table 19**
**STATE RETIREMENT SYSTEMS**
**Fiscal Year 2002**
**($ in Thousands)**

| | State Employees | Downstate Teachers | State Universities | General Assembly | Judges | Total | Self Managed Plan State Universities (1) |
|---|---|---|---|---|---|---|---|
| Begin, Net Asset Balance (2) | 8,276,661.4 | 23,315,646.1 | 10,753,296.9 | 61,997.8 | 381,733.6 | 42,789,335.8 | 101,943.4 |
| Income | 36,920.6 | 864,522.7 | (143,600.4) | 2,359.0 | 15,525.4 | 775,727.3 | 33,685.8 |
| Member contributions | 196,915.4 | 681,151.8 | 251,573.7 | 1,552.3 | 12,487.3 | 1,143,680.5 | 25,904.0 |
| State contributions | 386,116.6 | 814,793.8 | 221,537.7 | 4,678.0 | 27,532.0 | 1,454,604.1 | 18,886.3 |
| Investment income | (546,111.4) | (723,987.0) | (651,298.4) | (3,914.8) | (24,493.9) | (1,949,805.5) | (15,185.7) |
| Other | 0.0 | 92,618.1 | 34,586.6 | 43.5 | 0.0 | 127,248.2 | 4,081.2 |
| Expenditures | 639,689.3 | 1,813,884.0 | 793,470.0 | 10,306.2 | 53,599.7 | 3,310,949.2 | 2,425.4 |
| Benefits | 617,918.5 | 1,759,748.7 | 743,267.1 | 9,953.2 | 52,822.3 | 3,183,709.8 | 2.8 |
| Refunds | 14,147.2 | 38,755.6 | 37,040.4 | 68.2 | 353.2 | 90,364.6 | 2,422.6 |
| Administration | 7,623.6 | 13,487.4 | 11,868.0 | 284.8 | 424.2 | 33,688.0 | 0.0 |
| Other | 0.0 | 1,892.3 | 1,294.5 | 0.0 | 0.0 | 3,186.8 | 0.0 |
| Equity Transfer | | | (1,549.9) | | | | 1,549.9 |
| Ending Net Asset Balance | 7,673,892.7 | 22,366,284.8 | 9,814,676.6 | 54,050.6 | 343,659.3 | 40,252,564.0 | 134,753.7 |
| Actuarial Liabilities (3) | 14,291,044.6 | 43,047,674.0 | 16,654,041.0 | 184,582.5 | 1,020,846.8 | 75,198,188.9 | N/A |
| Unfunded Accrued Liability | 6,617,151.9 | 20,681,389.2 | 6,839,364.4 | 130,531.9 | 677,187.5 | 34,945,624.9 | N/A |
| Asset/Liability Ratio | 53.7% | 52.0% | 58.9% | 29.3% | 33.7% | 53.5% | N/A |

(1) The Self Managed Plan (SMP) under the State Universities Retirement System 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 market basis as of June 30, 1996, per GASB Statement 25.
(3) Actuarially determined accrued benefit costs.

Note: Numbers may not add due to rounding.

**Table 20**
**STATE RETIREMENT SYSTEMS**
**Fiscal Year 2001**
**($ in Thousands)**

| | State Employees | Downstate Teachers | State Universities | General Assembly | Judges | Total | Self Managed Plan State Universities (1) |
|---|---|---|---|---|---|---|---|
| Begin, Net Asset Balance (2) | 8,910,900.7 | 24,481,412.6 | 12,063,949.6 | 70,471.4 | 422,933.7 | 45,949,668.0 | 73,412.4 |
| Income | (72,495.0) | 449,933.5 | (584,898.7) | 1,068.6 | 8,175.1 | (198,216.5) | 28,605.1 |
| Member contributions | 173,778.7 | 643,563.3 | 221,581.5 | 1,407.6 | 12,291.1 | 1,052,622.2 | 20,218.7 |
| State contributions | 366,029.0 | 724,007.8 | 216,349.1 | 4,305.0 | 24,218.0 | 1,334,908.9 | 16,254.9 |
| Investment income | (612,302.7) | (1,015,255.2) | (1,053,627.0) | (4,650.9) | (28,464.9) | (2,714,300.7) | (11,043.1) |
| Other | 0.0 | 97,617.6 | 30,797.7 | 6.9 | 130.9 | 128,553.1 | 3,174.6 |
| Expenditures | 561,744.2 | 1,615,700.0 | 723,227.5 | 9,542.2 | 49,375.3 | 2,959,589.2 | 2,600.6 |
| Benefits | 537,591.7 | 1,566,793.2 | 664,792.8 | 9,228.0 | 48,330.8 | 2,826,736.5 | 48.2 |
| Refunds | 17,012.2 | 35,849.1 | 45,747.1 | 37.8 | 633.6 | 99,279.8 | 2,552.4 |
| Administration | 7,140.3 | 12,640.6 | 11,185.2 | 276.4 | 410.9 | 31,653.3 | 0.0 |
| Other | 0.0 | 417.1 | 1,502.5 | 0.0 | 0.0 | 1,919.6 | 0.0 |
| Equity Transfer | | | (2,526.4) | | | | 2,526.4 |
| Ending Net Asset Balance | 8,276,661.4 | 23,315,646.1 | 10,753,296.9 | 61,997.8 | 381,733.6 | 42,789,335.8 | 101,943.4 |
| Actuarial Liabilities (3) | 12,572,240.1 | 39,166,697.0 | 14,915,317.0 | 177,546.1 | 937,091.5 | 67,768,891.8 | N/A |
| Unfunded Accrued Liability | 4,295,578.8 | 15,851,050.9 | 4,162,020.1 | 115,548.3 | 555,357.9 | 24,979,556.0 | N/A |
| Asset/Liability Ratio | 65.8% | 59.5% | 72.1% | 34.9% | 40.7% | 63.1% | N/A |

(1) The Self Managed Plan (SMP) under the State Universities Retirement System 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 market basis as of June 30, 1996, per GASB Statement 25.
(3) Actuarially determined accrued benefit costs.

Note: Numbers may not add due to rounding.

**Table 21**
**STATE RETIREMENT SYSTEMS**
**Fiscal Year 2000**
**($ in Thousands)**

| | State Employees | Downstate Teachers | State Universities | General Assembly | Judges | Total | Self Managed Plan State Universities (1) |
|---|---|---|---|---|---|---|---|
| Begin, Net Asset Balance (2) | 7,986,433.0 | 22,237,709.0 | 10,761,726.3 | 66,832.5 | 389,761.9 | 41,442,462.7 | 31,302.9 |
| Income | 1,436,928.2 | 3,686,437.2 | 1,957,900.1 | 12,830.2 | 78,265.4 | 7,172,361.1 | 37,289.7 |
| Member contributions | 164,792.4 | 619,622.8 | 222,459.5 | 1,317.5 | 12,005.4 | 1,020,197.6 | 15,554.0 |
| State contributions | 340,872.5 | 639,298.9 | 212,478.8 | 3,951.0 | 21,388.0 | 1,217,989.2 | 12,108.2 |
| Investment income | 931,263.3 | 2,336,217.1 | 1,494,329.6 | 7,561.7 | 44,848.4 | 4,814,220.1 | 7,007.8 |
| Other | 0.0 | 91,298.4 | 28,632.2 | 0.0 | 23.6 | 119,954.2 | 2,619.7 |
| Expenditures | 512,460.5 | 1,442,733.6 | 649,306.8 | 9,191.3 | 45,093.6 | 2,658,785.8 | 1,550.2 |
| Benefits | 489,915.4 | 1,402,246.0 | 590,206.2 | 8,840.7 | 44,218.7 | 2,535,427.0 | 12.9 |
| Refunds | 15,931.3 | 28,797.1 | 46,801.0 | 97.6 | 498.2 | 92,125.2 | 1,537.3 |
| Administration | 6,613.8 | 11,680.6 | 10,901.9 | 253.0 | 376.7 | 29,826.0 | 0.0 |
| Other | | 9.9 | 1,397.7 | 0.0 | 0.0 | 1,407.6 | 0.0 |
| Equity Transfer | | | (6,370.0) | | | | 6,370.0 |
| Ending Net Asset Balance | 8,910,900.7 | 24,481,412.6 | 12,063,949.6 | 70,471.4 | 422,933.7 | 45,949,668.0 | 73,412.4 |
| Actuarial Liabilities (3) | 10,912,987.9 | 35,886,404.0 | 13,679,039.0 | 169,362.9 | 871,153.4 | 61,518,947.2 | N/A |
| Unfunded Accrued Liability | 2,002,087.2 | 11,404,991.4 | 1,615,089.4 | 98,891.5 | 448,219.7 | 15,569,279.2 | N/A |
| Asset/Liability Ratio | 81.7% | 68.2% | 88.2% | 41.6% | 48.5% | 74.7% | N/A |

(1) The Self Managed Plan (SMP) under the State Universities Retirement System 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 market basis as of June 30, 1996, per GASB Statement 25.
(3) Actuarially determined accrued benefit costs.

Note: Numbers may not add due to rounding.

**Table 22**
**STATE RETIREMENT SYSTEMS**
**Fiscal Year 1999**
**($ in Thousands)**

| | State Employees | Downstate Teachers | State Universities | General Assembly | Judges | Total | Self Managed Plan State Universities (1) |
|---|---|---|---|---|---|---|---|
| Begin, Net Asset Balance (2) | 7,064,494.8 | 19,965,887.4 | 9,792,000.0 | 62,737.6 | 356,692. 9 | 37,241,812.7 | 1,678.0 |
| Income | 1,383,227.0 | 3,592,632.8 | 1,552,871.5 | 12,797.1 | 74,572.3 | 6,616,100.7 | 15,661.0 |
| Member contributions | 159,580.2 | 866,375.9 | 212,965.7 | 1,413.7 | 11,270.1 | 1,251,605.6 | 6,709.3 |
| State contributions | 315,525. 0 | 572,950.6 | 212,393.6 | 3,592.0 | 18,688. 8 | 1,123,150.0 | 5,238.6 |
| Investment income | 908,121.8 | 2,089,661.0 | 1,102,031.7 | 7,683.6 | 44,613.4 | 4,152,111.5 | 2,518.2 |
| Other | 0.0 | 63,645.3 | 25,480.5 | 107.8 | 0.0 | 89,233.6 | 1,194.9 |
| Expenditures | 461,288.8 | 1,320,811.2 | 568,587.5 | 8,702.2 | 41,503.3 | 2,400,893.0 | 593.8 |
| Benefits | 440,842.4 | 1,284,126.6 | 525,966.1 | 8,333.7 | 40,851.6 | 2,300,120.4 | 0.0 |
| Refunds | 14,012.5 | 25,858.9 | 31,329.9 | 129.4 | 296.1 | 71,626.8 | 593.8 |
| Administration | 6,433.9 | 10,680.1 | 9,991.2 | 239.1 | 355.6 | 27,699.9 | 0.0 |
| Other | | 145.6 | 1,300.3 | 0.0 | 0.0 | 1,445.9 | 0.0 |
| Equity Transfer | | | (14,557.7) | | | | 14,557.7 |
| Ending Net Asset Balance | 7,986,433.0 | 22,237,709.0 | 10,761,726.3 | 66,832.5 | 389,761.9 | 41,442,462.7 | 31,302.9 |
| Actuarial Liabilities (3) | 9,998,205.0 | 33,205,513.0 | 12,617,495.0 | 160,870.8 | 805,587.2 | 56,787,671.0 | N/A |
| Unfunded Accrued Liability | 2,011,772.0 | 10,967,804.0 | 1,855,768.7 | 94,038.3 | 415,825.3 | 15,345,208.3 | N/A |
| Asset/Liability Ratio | 79.9% | 67.0% | 85.3% | 41.5% | 48.4% | 73.0% | N/A |

(1) The Self Managed Plan (SMP) under the State Universities Retirement System 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 market basis as of June 30, 1996, per GASB Statement 25.
(3) Actuarially determined accrued benefit costs.

Note: Numbers may not add due to rounding.

**Table 23**
**STATE RETIREMENT SYSTEMS**
**Fiscal Year 1998**
**($ in Thousands)**

| | State Employees | Downstate Teachers | State Universities | General Assembly | Judges | Total | Self Managed Plan State Universities (1) |
|---|---|---|---|---|---|---|---|
| Begin, Net Asset Balance (2) | 6,048,027.2 | 17,393,108.0 | 8,376,347.3 | 56,709.7 | 314,561.2 | 32,188,753.4 | 0.0 |
| Income | 1,436,875.0 | 3,817,051.7 | 1,923,986.0 | 14,118.3 | 81,666.5 | 7,273,697.5 | 171.7 |
| Member contributions | 155,898.1 | 441,016.4 | 221,674.8 | 1,224.5 | 10,832.7 | 830,646.5 | 94.6 |
| State contributions | 200,741.7 | 466,948.4 | 201,567.8 | 3,113.0 | 15,664.0 | 888,034.9 | 56.2 |
| Investment income | 1,080,235.2 | 2,873,101.5 | 1,474,574.7 | 9,780.8 | 55,141.6 | 5,492,833.8 | 14.9 |
| Other | 0.0 | 35,985.4 | 26,168.7 | 0.0 | 28.2 | 62,182.3 | 6.0 |
| Expenditures | 420,407.4 | 1,244,272.2 | 506,827.0 | 8,090.4 | 39,534.8 | 2,219,131.8 | 0.0 |
| Benefits | 399,440.1 | 1,209,957.2 | 466,508.8 | 7,779.4 | 38,632.8 | 2,122,318.3 | 0.0 |
| Refunds | 14,813.0 | 24,371.8 | 29,680.3 | 83.4 | 568.4 | 69,516.9 | 0.0 |
| Administration | 6,154.3 | 9,761.3 | 9,428.3 | 227.6 | 333.6 | 25,905.1 | 0.0 |
| Other | | 181.8 | 1,209.6 | 0.0 | 0.0 | 1,391.4 | 0.0 |
| Equity Transfer | | | (1,506.3) | | | | 1,506.3 |
| Ending Net Asset Balance | 7,064,494.8 | 19,965,887.5 | 9,792,000.0 | 62,737.6 | 356,692.9 | 37,241,812.8 | 1,678.0 |
| Actuarial Liabilities-(3) | 9,341,897.6 | 29,908,241.0 | 11,416,095.0 | 150,408.4 | 747,275.5 | 51,563,917.5 | N/A |
| Unfunded Accrued Liability | 2,277,402.8 | 9,942,353.5 | 1,624,095.0 | 87,670.8 | 390,582.6 | 14,322,104.7 | N/A |
| Asset/Liability Ratio | 75.6% | 66.8% | 85.8% | 41.7% | 47.7% | 72.2% | N/A |

(1) The Self Managed Plan (SMP) under the State Universities Retirement System 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 market basis as of June 30, 1996, per GASB Statement 25.
(3) Actuarially determined accrued benefit costs.

Note: Numbers may not add due to rounding.

## FINANCIAL ADVISORS

Kirkpatrick Pettis and Mesirow Financial, Inc. are acting as financial advisors (the "**Financial Advisors**") to the State in connection with the offering of the Bonds. The Financial Advisors have assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Bonds.

## ADDITIONAL INFORMATION

The information contained in this Official Statement is subject to change without notice and no implication is to be derived therefrom or from the sale of the Bonds that there has been no change in the affairs of the State or the information contained herein since the dates as of which such information is given. Any statements in this Official Statement involving matters of opinion or estimate, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not be construed as a contract or agreement between the State and the purchasers of any of the Bonds.

## MISCELLANEOUS

Additional information regarding the Bonds and this Official Statement is available by contacting the Bureau of the Budget, 108 State Capitol, Springfield, Illinois 62706; telephone: (217) 782-4520.

The State has authorized the distribution of this Official Statement.

This Official Statement has been duly executed and delivered by the Director of the Bureau of the Budget on behalf of the State.

STATE OF ILLINOIS

/s/ John B. Filan

Director of the Bureau of the Budget

# APPENDIX A

# ECONOMIC DATA

## APPENDIX A

## 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 third among the ten most populous states and ninth among all states. Illinois ranks eighth 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 Illinois, is the third most populous city in the United States, and serves as the transportation center of the midwestern U.S. and the headquarters of many of the nation's major corporations and financial institutions. Table A-1 compares the workforce composition of Illinois to that of the United States as a whole. Table A-2 shows the distribution of Illinois non-agricultural employment by industry sector.

**Table A-1**

**PAYROLL JOBS BY INDUSTRY - 2002**
**(Thousands)**

| | Illinois | % of Illinois Total | U.S. | % of U.S. Total |
|---|---|---|---|---|
| Mining | 9 | 0.2 | 557 | 0.4 |
| Construction | 267 | 4.5 | 6,558 | 5.0 |
| Manufacturing | 882 | 14.9 | 16,721 | 12.8 |
| Transportation & Public Utilities | 344 | 5.8 | 6,774 | 5.2 |
| Wholesale & Retail Trade | 1,340 | 22.6 | 29,976 | 22.9 |
| Finance, Insurance & Real Estate | 402 | 6.8 | 7,761 | 5.9 |
| Services | 1,837 | 31.0 | 41,183 | 31.5 |
| Government | 843 | 14.2 | 21,250 | 16.2 |
| **Total** | **5,925** | **100.0** | **130,779** | **100.0** |

Source: U.S. Department of Labor, Bureau of Labor Statistics, January 2003.
Note: Columns may not add due to rounding.

According to the U.S. Department of Commerce, Bureau of Economic Analysis (May 2003), agricultural employment in the State of Illinois totaled 98,943 in 2001, compared to national agricultural employment of 3,075,000.

**Table A-2**

**NON-AGRICULTURAL PAYROLL JOBS BY INDUSTRY ILLINOIS - 1998 THROUGH 2002 (Thousands)**

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| **Total Employment** | **5,899** | **5,958** | **6,045** | **6,005** | **5,925** |
| Mining | 11 | 11 | 10 | 10 | 9 |
| Construction | 240 | 253 | 266 | 269 | 267 |
| Manufacturing | 975 | 955 | 946 | 908 | 882 |
| Non-Durable Goods | 384 | 380 | 378 | 370 | 365 |
| Durable Goods | 591 | 575 | 568 | 538 | 517 |
| Transportation and Public Utilities | 348 | 348 | 355 | 355 | 344 |
| Wholesale and Retail | 1,332 | 1,345 | 1,363 | 1,355 | 1,340 |
| Wholesale Trade | 354 | 358 | 360 | 348 | 342 |
| Retail Trade | 979 | 987 | 1,003 | 1,007 | 998 |
| Finance, Insurance and Real Estate | 404 | 404 | 401 | 404 | 402 |
| Services | 1,773 | 1,817 | 1,865 | 1,860 | 1,837 |
| Government | 816 | 826 | 840 | 844 | 843 |

Source: U.S. Department of Labor, Bureau of Labor Statistics, January 2003.
Note: Data based on benchmark year 2000. Columns may not add due to rounding.

The following sections present pertinent data on Illinois' economy, tax base and employment characteristics.

**Agriculture**

Illinois is a major agricultural state. Tables A-3 and A-4 summarize key agricultural production statistics.

**Table A-3**

**ILLINOIS CASH RECEIPTS FROM CROPS AND LIVESTOCK ($ in Millions)**

| | 1997 | 1998 | 1999 | 2000 | 2001 | Rank Among States - 2001 |
|---|---|---|---|---|---|---|
| Crops | 7,055 | 6,167 | 5,233 | 5,312 | 5,704 | 2 |
| Livestock | 1,928 | 1,575 | 1,524 | 1,710 | 1,843 | 23 |
| **Total** | **8,984** | **7,742** | **6,757** | **7,022** | **7,547** | **8** |

Source: U.S. Department of Agriculture-Economic Research Service.
Note: Columns may not add due to rounding.

**Table A-4**

**AGRICULTURAL EXPORTS**
**Federal Fiscal Year 2001**
**($ in Millions)**

| Agricultural Exports | U.S. Total | Illinois Share | Percent of U.S. | Rank Among States |
|---|---|---|---|---|
| All Commodities | 52,734.9 | 3,056.5 | 5.8 | 5 |
| Feed Grain and Products | 6,336.9 | 945.7 | 14.9 | 2 |
| Soybeans and Products | 6,818.6 | 1,136.8 | 16.7 | 2 |

Source: U.S. Department of Agriculture-Economic Research Service.

**Financial Institutions**

Illinois serves as the financial center of the Midwest. The State ranks third among all states in total assets for commercial banks. As of September 30, 2002, there were 791 commercial and savings banks in Illinois with total assets of $535.8 billion. Additionally, as of January 29, 2003, there were 62 OTS-regulated and FDIC-insured thrift institutions in Illinois with total assets of $31.2 billion.

Two foreign banking corporations, ABN Amro (which also owns LaSalle National Bank and Standard Federal Bank), and Bank of Montreal (which also owns Harris Trust and Savings Bank), maintain their North American headquarters in Illinois. Together, these banks have more than $163 billion in bank assets. In addition, Bank One Corporation, National City Michigan/Illinois, and The Northern Trust Company, all of which are multi-national banks with offices throughout the world, have their headquarters in Illinois. Together these banks have more than $270 billion in total banking assets.

Finally, the Federal Reserve Bank of Chicago, a branch of the nation's central bank, is located in the heart of the downtown Chicago business district.

Source: Federal Deposit Insurance Corporation and Office of Thrift Supervision.

**Contract Construction**

Contracts for future construction in Illinois averaged $12.7 billion annually during the period 1991 through 2001 and totaled $18.9 billion in 2001. During the period 1991 through 2001, building permits issued for residential construction averaged 47,221 annually, with an average annual valuation of $5.2 billion. Table A-5 presents annual data on contracts for future construction and residential building activity.

**Table A-5**

**CONTRACTS FOR FUTURE CONSTRUCTION AND RESIDENTIAL BUILDING ACTIVITY**

| Year | Residential, Non-residential and Non-building Contracts for Future Construction[1] ($ in Millions) | Residential Building Activity (Privately-Owned Housing Units)[2] Permits | Valuation ($ in Millions) |
|---|---|---|---|
| 1991 | 9,212 | 32,846 | 3,189 |
| 1992 | 10,600 | 40,430 | 3,962 |
| 1993 | 11,161 | 44,742 | 4,487 |
| 1994 | 12,008 | 49,290 | 5,012 |
| 1995 | 11,726 | 47,467 | 4,844 |
| 1996 | 12,681 | 49,592 | 5,199 |
| 1997 | 12,862 | 46,323 | 5,087 |
| 1998 | 15,214 | 47,984 | 5,618 |
| 1999 | 15,448 | 53,974 | 6,538 |
| 2000 | 17,194 | 51,944 | 6,528 |
| 2001 | 18,858 | 54,839 | 7,141 |

[1]Dodge Division, McGraw Hill Information System Co.
[2]U.S. Department of Commerce, Housing Units Authorized by Building Permits: Annual, various issues.

**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)**

| | 1980 | 1990 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Illinois | 126.7 | 237.6 | 401.8 | 413.0 | 420.9 |
| United States | 2,323.9 | 4,903.2 | 8,406.6 | 8,685.3 | 8,947.2 |

Source: Illinois - U.S. Department of Commerce, Bureau of Economic Analysis, State Personal Income, April 2003.
United States - U.S. Department of Commerce, Bureau of Economic Analysis, April 2003.

**Table A-7**

**PER CAPITA PERSONAL INCOME**

| | 1980 | 1990 | 2000 | 2001 | 2002 | Rank |
|---|---|---|---|---|---|---|
| Illinois | $11,077 | $20,744 | $32,297 | $32,990 | $33,404 | 9 |
| United States | 10,183 | 19,572 | 29,760 | 30,413 | 30,941 | -- |
| **Ten Most Populous States:** | | | | | | |
| New Jersey | 11,778 | 24,748 | 37,734 | 38,625 | 39,453 | 1 |
| New York | 11,095 | 23,292 | 35,041 | 35,878 | 36,043 | 2 |
| **Illinois** | **11,077** | **20,744** | **32,297** | **32,990** | **33,404** | **3** |
| California | 12,029 | 21,882 | 32,363 | 32,655 | 32,996 | 4 |
| Pennsylvania | 10,151 | 19,810 | 29,759 | 30,752 | 31,727 | 5 |
| Michigan | 10,369 | 19,020 | 29,408 | 29,629 | 30,296 | 6 |
| Florida | 10,049 | 19,832 | 28,366 | 29,048 | 29,596 | 7 |
| Ohio | 10,103 | 18,788 | 28,130 | 28,699 | 29,405 | 8 |
| Georgia | 8,474 | 17,722 | 28,103 | 28,523 | 28,821 | 9 |
| Texas | 9,957 | 19,446 | 27,992 | 28,472 | 28,551 | 10 |
| **Great Lakes States:** | | | | | | |
| **Illinois** | **11,071** | **20,744** | **32,297** | **32,990** | **33,404** | **1** |
| Michigan | 10,369 | 19,020 | 29,408 | 29,629 | 30,296 | 2 |
| Wisconsin | 10,161 | 18,152 | 28,389 | 29,196 | 29,923 | 3 |
| Ohio | 10,103 | 18,788 | 28,130 | 28,699 | 29,405 | 4 |
| Indiana | 9,449 | 17,616 | 27,010 | 27,522 | 28,240 | 5 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis, April 2003.

**Table A-8**
**UNEMPLOYMENT**

| | Number of Unemployed | | | | | | Unemployment Rate (%) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** |
| United States | 6,739,000 | 6,210,000 | 5,880,000 | 5,655,000 | 6,742,000 | 8,266,000 | 4.9 | 4.5 | 4.2 | 4.0 | 4.8 | 5.8 |
| Illinois | 291,900 | 278,100 | 273,300 | 279,400 | 348,600 | 414,800 | 4.7 | 4.5 | 4.3 | 4.4 | 5.4 | 6.5 |
| Bloomington-Normal MSA | 2,142 | 2,014 | 2,025 | 2,315 | 2,292 | 2,578 | 2.6 | 2.3 | 2.2 | 2.5 | 2.4 | 2.4 |
| Champaign-Urbana MSA | 2,729 | 2,625 | 2,468 | 2,420 | 2,802 | 3,230 | 2.9 | 2.8 | 2.5 | 2.4 | 2.8 | 3.2 |
| Chicago PMSA | 185,650 | 177,963 | 173,915 | 178,382 | 231,734 | 287,375 | 4.5 | 4.3 | 4.1 | 4.2 | 5.4 | 6.4 |
| Davenport-Moline-Rock Island MSA, IL portion | 4,043 | 3,968 | 5,823 | 5,562 | 5,703 | 6,054 | 4.0 | 3.9 | 5.6 | 5.3 | 5.5 | 6.0 |
| Decatur MSA | 4,202 | 3,241 | 2,936 | 3,063 | 3,709 | 4,661 | 7.1 | 5.6 | 4.8 | 5.0 | 6.3 | 8.2 |
| Kankakee MSA | 2,936 | 3,146 | 2,850 | 2,554 | 3,078 | 3,796 | 5.6 | 6.1 | 5.4 | 4.8 | 5.8 | 7.2 |
| Peoria-Pekin MSA | 8,141 | 6,706 | 2,541 | 7,299 | 8,624 | 9,698 | 4.5 | 3.7 | 4.0 | 3.9 | 4.6 | 5.3 |
| Rockford MSA | 9,287 | 8,749 | 9,091 | 9,533 | 13,162 | 15,439 | 4.7 | 4.5 | 4.5 | 4.7 | 6.5 | 7.8 |
| Springfield MSA | 4,582 | 4,201 | 3,907 | 3,865 | 4,268 | 4,997 | 4.3 | 3.9 | 3.6 | 3.6 | 3.9 | 4.6 |
| St. Louis MSA, IL portion | 14,825 | 14,985 | 14,017 | 14,930 | 16,771 | 18,011 | 5.1 | 5.2 | 4.8 | 5.1 | 5.9 | 6.4 |

Source: Illinois Department of Employment Security and U.S. Department of Labor, Bureau of Labor Statistics.

**Population**

Illinois is the nation's fifth most populous state.

**Table A-9**

**POPULATION: ILLINOIS AND SELECTED METROPOLITAN STATISTICAL AREAS**

| | 1980 | 1990 | 2000 |
|---|---|---|---|
| Illinois | 11,427,409 | 11,430,602 | 12,419,293 |
| Chicago CMSA (IL Part) | 7,348,874 | 7,507,113 | 8,272,768 |
| St. Louis MSA (IL Part) | 588,464 | 588,995 | 599,845 |
| Rockford MSA | 325,852 | 329,626 | 371,236 |
| Peoria MSA | 365,864 | 339,172 | 347,387 |
| Springfield MSA | 187,770 | 189,550 | 201,437 |
| Champaign-Urbana MSA | 168,392 | 173,025 | 179,669 |

Source: U.S. Bureau of the Census. (Populations for 1980 and 1990 reflect Metropolitan Statistical Area definitions as of June 30, 1993.)

**Table A-10**

**ILLINOIS POPULATION BY AGE GROUP (Thousands)**

| | 1990 | 2000 |
|---|---|---|
| Under 5 years | 848 | 877 |
| 5-14 years | 1,633 | 1,835 |
| 15-24 years | 1,678 | 1,745 |
| 25-34 years | 1,993 | 1,812 |
| 35-44 years | 1,700 | 1,984 |
| 45-54 years | 1,167 | 1,627 |
| 55-64 years | 975 | 1,041 |
| 65 years and over | 1,437 | 1,500 |
| TOTAL | 11,431 | 12,419 |

Source: U.S. Bureau of the Census.
Note: Columns may not add due to rounding.

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# APPENDIX B

## PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL

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## APPENDIX B

## PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL

Re: $10,000,000,000 The State of Illinois
General Obligation Bonds, Pension Funding Series of June 2003 (Taxable)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by The State of Illinois (the "State") of its $10,000,000,000 aggregate original principal amount of its General Obligation Bonds, Pension Funding Series of June 2003 (Taxable) (the "Bonds"). The Bonds are being issued pursuant to proceedings of the Governor of the State and the Director of the Bureau of the Budget of the State, including a Bond Order executed by the Governor and the Director of the Bureau of the Budget on June 5, 2003. The Bonds mature on June 1 of the years, in the amounts and bear interest as follows:

| Maturity (June 1) | Principal Amount | Interest Rate |
|---|---|---|
| 2008 | $ 50,000,000 | 2.50% |
| 2009 | 50,000,000 | 2.80 |
| 2010 | 50,000,000 | 3.30 |
| 2011 | 50,000,000 | 3.55 |
| 2012 | 100,000,000 | 3.75 |
| 2013 | 100,000,000 | 3.85 |
| 2014 | 100,000,000 | 3.95 |
| 2015 | 100,000,000 | 4.05 |
| 2018 | 375,000,000 | 4.35 |
| 2023 | 1,375,000,000 | 4.95 |
| 2033 | 7,650,000,000 | 5.10 |

The Bonds are not subject to optional redemption prior to their maturity. The Bonds are subject to mandatory sinking fund redemption as set forth in the Official Statement relating to the Bonds, dated as of June 5, 2003.

In our capacity as bond counsel, we have examined a certified record of such proceedings of the State authorizing the issuance, sale and delivery of the Bonds and such other matters of fact and law as we have deemed necessary to render this opinion (collectively, the "Proceedings"). As to questions of fact material to our opinion, we have relied upon the Proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Proceedings show lawful authority for the issuance of the Bonds under the laws of the State of Illinois now in force.

2. Pursuant to the Proceedings, the Bonds are valid and binding general obligations of the State.

We note that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. Furthermore, we express no opinion as to the availability of any particular remedy.

We have examined an executed Bond and, in our opinion, the form of that Bond and its execution are regular and proper.

Very truly yours,

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# APPENDIX C

# GLOBAL BOOK-ENTRY SYSTEM

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# APPENDIX C

## GLOBAL BOOK-ENTRY SYSTEM

### THE DEPOSITORY TRUST COMPANY

*The information in this Appendix C concerning The Depository Trust Company ("**DTC**"), New York, New York, and DTC's book-entry system was obtained from DTC. Neither the State of Illinois (the "**State**") nor the Underwriters take responsibility for the completeness or accuracy of the information contained in this Appendix C. The State cannot and does not give any assurances that DTC, Issuers (as defined below) or Indirect Issuers (as defined below) will distribute to the Beneficial Owners (as defined below) (a) payments of principal and interest (including redemption payments) with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, Direct Issuers or Indirect Issuers will act in the manner described in this Appendix C.*

DTC will act as 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). One or more fully-registered Bond certificates will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 securities that its participants ("**Issuers**") deposit with DTC. DTC also facilitates the settlement among Issuers of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Issuers' accounts, thereby eliminating the need for physical movement of securities certificates. "Direct Issuers" include 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 owned by its principal users including: major banks, brokers, mutual funds firms, the National Association of Securities Dealers, the New York Stock Exchange and other companies within the financial services industry. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with an Issuer, either directly or indirectly ("**Indirect Issuers**"). The rules applicable to DTC and its Issuers are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Issuers, 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 Issuers' and Indirect Issuers' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Issuer or Indirect Issuer 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 Issuers 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 Issuers with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Ownership of the Bonds; DTC's records reflect only the identity of the Issuers to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Issuers will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyances of notices and other communications by DTC to Issuers, by Issuers to Indirect Issuers, and by Issuers and Indirect Issuers 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 the 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 security documents. For example, Beneficial Owners of the 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 of the Bonds may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Issuer to be redeemed. Any failure of DTC to advise any Issuers, or any Issuer to advise any Indirect Issuer, or any Indirect Issuer to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. 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 Issuers to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments (including redemption payments) on the Bonds will be made to Cede & Co., as nominee of DTC. DTC's practice is to credit Issuers' accounts, upon DTC's receipt of funds and corresponding detail information from the State or the Treasurer of the State, as bond registrar and paying agent for the Bonds ("**Bond Registrar**"), on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Issuers 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 Issuer and not of DTC or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest (including redemption proceeds) to Cede & Co. is the responsibility of the State and the Bond Registrar, disbursement of such payments to Issuers will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Issuers and Indirect Issuers.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State and the Bond Registrar. Under such circumstances, in the event that a successor securities 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The State will not have any responsibility or obligation to Issuers, Indirect Issuers or Beneficial Owners with respect to the payments or the providing of notice to Issuers, Indirect Issuers or Beneficial Owners or the selection of the Bonds for redemption.

Neither the State nor the Underwriters give any assurances that DTC, Issuers, Indirect Issuers or others will distribute principal and interest payments (including redemption payments) on the Bonds paid to DTC or its nominee, as the registered owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement. Neither the State nor the Underwriters are responsible or liable for the failure of DTC, Issuers or Indirect Issuers to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

## CLEARSTREAM AND EUROCLEAR

*The information in this portion of Appendix C has been obtained from Clearstream and Euroclear and other sources which are believed by the State and the Underwriters to be accurate, but neither the State nor the Underwriters take responsibility for the accuracy thereof. The State cannot and do not give any assurances that*

*DTC, Issuers, Clearstream, Clearstream customers, Euroclear or Euroclear Participants will distribute to the Beneficial Owners of the Bonds; (i) payments of principal and interest payments (including redemption payments) with respect to the Bonds; (ii) confirmation of ownership interest in the Bonds; or (iii) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis, or that DTC, the Issuers, Clearstream, Clearstream customers, Euroclear or Euroclear Participants will serve and act in the manner described in this Official Statement.*

*The State will have no responsibility or obligations to DTC, the Issuers, Clearstream, Clearstream customers, Euroclear, Euroclear Participants or the Beneficial Owners with respect to: (i) the accuracy of any records maintained by DTC or any Issuers, Clearstream, Clearstream customers, Euroclear or Euroclear Participants; (ii) the payment by DTC or any Issuers, Clearstream, Clearstream customers, Euroclear or Euroclear Participants of any amount due to any Beneficial Owner in respect of principal and interest payments (including redemption payments) on the Bonds; (iii) the delivery by DTC or any Issuers, Clearstream, Clearstream customers, Euroclear or Euroclear Participants of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the Bonds; or (iv) any consent given or other action taken by DTC as registered holder of the Bonds.*

**Clearstream**

Clearstream International is the product of the merger of Deutsche Börse Clearing AG and Cedel International, a European international clearing depository founded in 1970, and a number of its subsidiaries including Cedelbank. Clearstream International is registered in Luxembourg and has two subsidiaries: Clearstream banking and Clearstream Services. Clearstream Banking ("**Clearstream**") contains the core clearing and settlement business and consists of Clearstream Banking Luxembourg, Clearstream banking Frankfurt and six regional offices in Dubai, Hong Kong, London, New York, Sao Paulo and Tokyo.

Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream in any of 36 currencies, including United States Dollars. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream also deals with domestic securities markets in over 30 countries through established depository and custodial relationships. Clearstream is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier, "CSSF," which supervises Luxembourg banks. Clearstream's customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada and the United States. Indirect access to Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream. Clearstream has established an electronic bridge with the Operator of Euroclear in Brussels to facilitate settlement of trades between Clearstream and Euroclear.

**Euroclear System**

The Euroclear System ("**Euroclear**") was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment. This system eliminates the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear is owned by Euroclear plc and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (the "**Euroclear Operator**"). Euroclear includes various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. All Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. The Euroclear Operator establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "**Terms and Conditions**"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

**Initial Settlement; Distributions; Actions Upon Behalf of Owners**

All of the Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream and Euroclear's names on the books of their respective U.S. Depository, which, in turn, holds such positions in customers' securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream and the Euroclear Operator acts as depository for Euroclear (the "**U.S. Depositories**").

Holders of the Bonds may hold their Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or directly through organizations which are participants in such systems.

Investors electing to hold their Bonds through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Securities will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Distributions with respect to the Bonds held beneficially through Clearstream will be credited to the cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by its U.S. Depository. Distributions with respect to the Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by its U.S. Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations.

Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an owner of the Bonds on behalf of a Clearstream customer or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the U.S. Depository's ability to effect such actions on its behalf through DTC.

**Secondary Market Trading**

Because the purchaser determines the place of delivery, it is important to establish at the time of the trading of any securities where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

*Trading Between DTC Issuers*. Secondary market trading between Issuers (other than U.S. Depositaries) will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds.

*Trading Between Euroclear Participants and/or Clearstream Customers.* Secondary market trading between Euroclear Participants and/or Clearstream customers will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

*Trading Between DTC Seller and Euroclear or Clearstream Purchaser.* When securities are to be transferred from the account of an Issuer (other than U.S. Depositories) to the account of a Euroclear Participant or a Clearstream customer, the purchaser must send instructions to the applicable U.S. Depository before settlement date 12:30. Euroclear or Clearstream, as the case may be, will instruct its U.S. Depository to receive the securities against payment. Payment will then be made by its U.S. Depository to the Issuer's account against delivery of the securities. After settlement has been completed, the securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear Participant's or Clearstream customers' accounts. Credit for the securities will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Bonds will accrue from the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear Participants and Clearstream customers will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the securities are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants/customers can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear Participants or Clearstream customers purchasing securities would incur overdraft charges for one day, assuming they cleared the overdraft when the securities were credited to their accounts. However, interest on the securities would accrue from the value date. Therefore, in many cases, the investment income on securities earned during that one day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's/customer's particular cost of funds.

Because the settlement is taking place during New York business hours, Issuers can employ their usual procedures for sending securities to the applicable U.S. Depository for the benefit of Euroclear Participants or Clearstream customers. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the Issuer, a cross-market transaction will settle no differently from a trade between two Issuers.

*Trading Between Euroclear or Clearstream Seller and DTC Purchaser.* Due to time zone differences in their favor, Euroclear Participants and Clearstream customers may employ their customary procedure for transactions in which securities are to be transferred by the respective clearing system, through the applicable U.S. Depository to another Issuer's. In these cases, Euroclear will instruct its U.S. Depository to credit the securities to the Issuer's account against payment. The payment will then be reflected in the account of the Euroclear Participant or Clearstream customer the following business day, and receipt of the cash proceeds in the Euroclear Participants' or Clearstream customers' accounts will be back-valued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear Participant or Clearstream customer has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear Participant's or Clearstream customer's accounts would instead be valued as of the actual settlement date.

**Procedures May Change**

Although DTC, Clearstream and Euroclear have agreed to these procedures in order to facilitate transfers of securities among DTC and its Issuers, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by any of them.

# APPENDIX D

# CONTINUING DISCLOSURE UNDERTAKING

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**APPENDIX D**

**CONTINUING DISCLOSURE UNDERTAKING**

The following is a summary of certain provisions of the Undertaking of the State and does not purport to be complete. The statements made under in this Appendix D are subject to the detailed provisions of the Undertaking, a copy of which is available upon request from the Bureau of the Budget.

**Annual Financial Information Disclosure**

The State covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (as described below) to each Nationally Recognized Municipal Securities Information Repository (a "**NRMSIR**") then recognized by the SEC for purposes of the Rule and to the repository, if any, designated by the State as the state depository (the "**SID**") and recognized as such by the SEC for purposes of the Rule. The State is required to deliver such information so that such entities receive the information by the dates specified in the Undertaking and described below.

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents, including other official statements (subject to the following sentence), which have been submitted to each NRMSIR and to the SID, if any, or filed with the SEC. If the information included by reference is contained in a final official statement, the final official statement must be submitted by the State to the Municipal Securities Rulemaking Board (the "**MSRB**").

"Annual Financial Information" means financial information and operating data of the type contained herein (i) in Tables 1 through 4 under the heading "STATE FINANCIAL INFORMATION", (ii) in Tables 5, 6, 9, 10 and 14 under the heading "INDEBTEDNESS", and (iii) in Tables 18 and 19 under the heading "PENSION SYSTEMS." Annual Financial Information exclusive of Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, by 210 days after the last day of the State' s fiscal year, which is currently June 30 of each year.

"Audited Financial Statements" means the General Purpose Financial Statements of the State prepared in accordance with generally accepted accounting principles applicable to governmental units. Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, within 30 days after availability to the Bureau. Audited Financial Statements are also available from the Comptroller as described in this Official Statement under the heading "STATE FINANCIAL INFORMATION - GAAP FINANCIAL REPORT."

**Material Events Disclosure**

The State covenants that it will disseminate to each NRMSIR or to the MSRB and to the SID, if any, in a timely manner the disclosure of the occurrence of an Event (as described below) with respect to the Bonds that is material, as materiality is interpreted under the 1934 Act. The "Events", certain of which may not be applicable to the Bonds, are:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the security;
- modifications to the rights of security holders;
- bond calls;
- defeasances;
- release, substitution or sale of property securing repayment of the securities; and
- rating changes.

**Consequences of Failure of the State to Provide Information**

The State will give timely notice to each NRMSIR or to the MSRB and to the SID, if any, of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when they are due under the Undertaking.

If the State fails to comply with any provision of the Undertaking, the Beneficial Owner of any Bond may seek mandamus or specific performance by court order, to cause the State to comply with its obligations under the Undertaking. A default under the Undertaking shall not be deemed a default under the Bond Sale Order, and the sole remedy under the Undertaking in the event of any failure of the State to comply with the Undertaking shall be an action to compel performance.

**Amendment; Waiver**

Notwithstanding any other provision of the Undertaking, the State by a duly enacted order authorizing such amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

(a) The amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the State, or type of business conducted;

(b) The Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined by a party unaffiliated with the State (such as bond counsel).

**Termination of Undertaking**

The Undertaking shall be terminated if the State no longer has any legal liability for any obligation on or relating to repayment of the Bonds under the Bond Sale Order. The State shall give timely notice to each NRMSIR or to the MSRB and to the SID, if any, if there is such a termination.

**Additional Information**

Nothing in the Undertaking will be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a material Event, in addition to that which is required by the Undertaking. If the State chooses to include any information from any document or notice of occurrence of a material Event in addition to that which is specifically required by the Undertaking, the State will have no obligation under the Undertaking to update such information or include it in any future disclosure or notice of occurrence of a material Event.

**Dissemination Agent**

The State may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

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