Update on Illinois' Economic and Fiscal Challenges and Responses

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Update on Illinois' economy & fiscal balance

- I. Illinois employment and unemployment
  - Disappointing Illinois unemployment rate in Nov.
  - Illinois employment is stable
- II. Fiscal balance in Illinois
  - Current policy seriously out of balance
  - A six year plan with some caveats
- III. Update on rating of Illinois' debt

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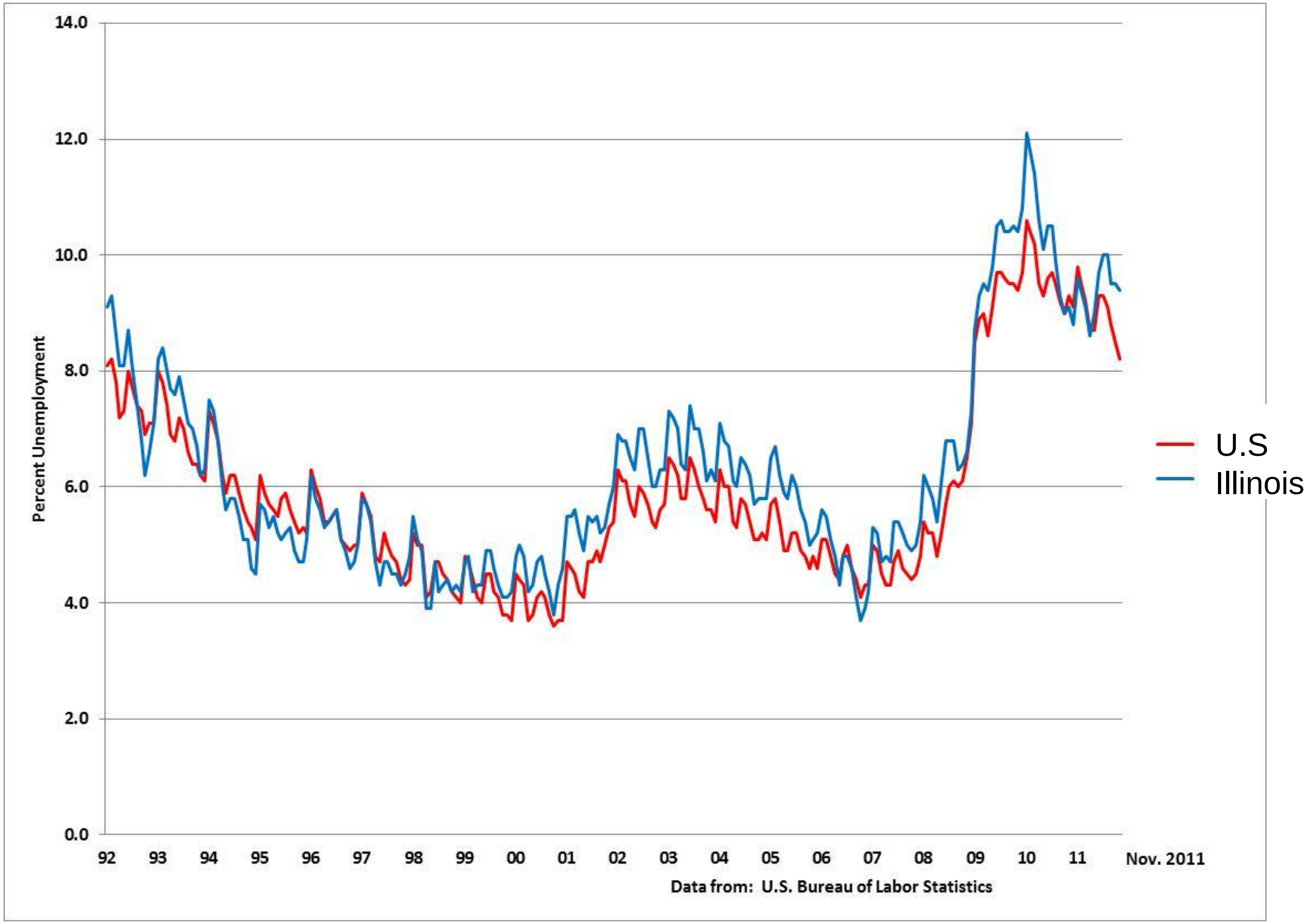
Unemployment Rate

The percent of the labor force that is unemployed, not seasonally adjusted



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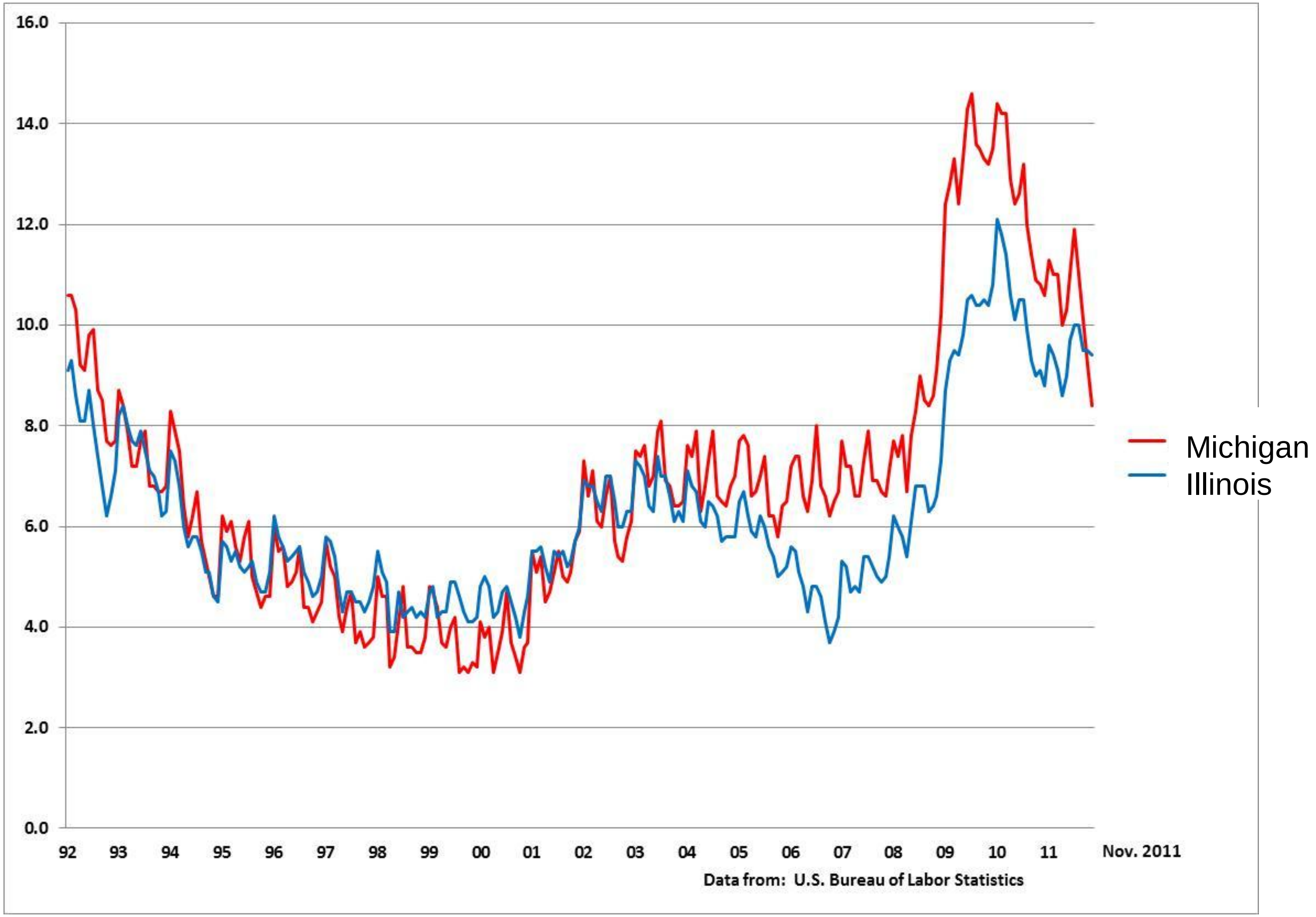
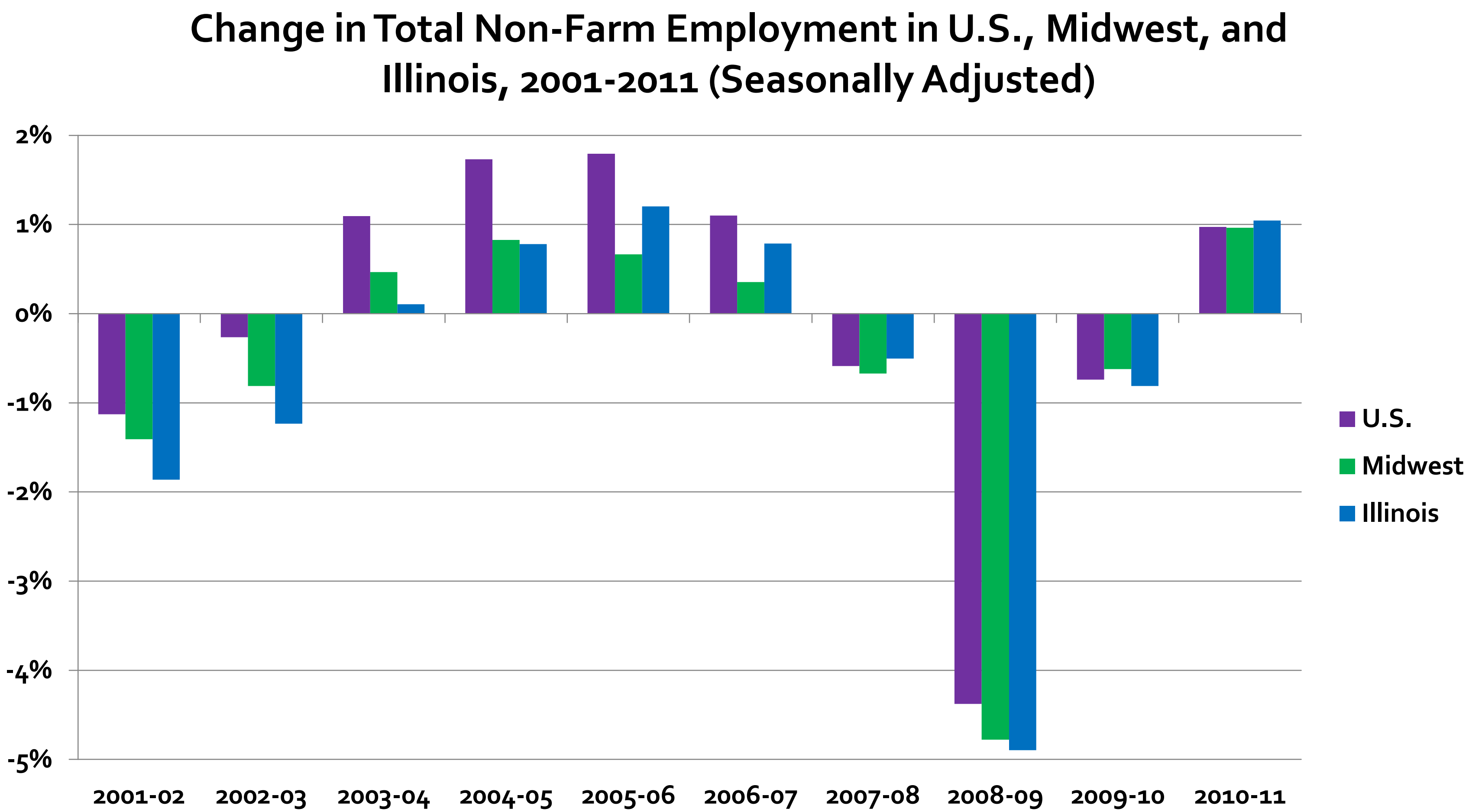


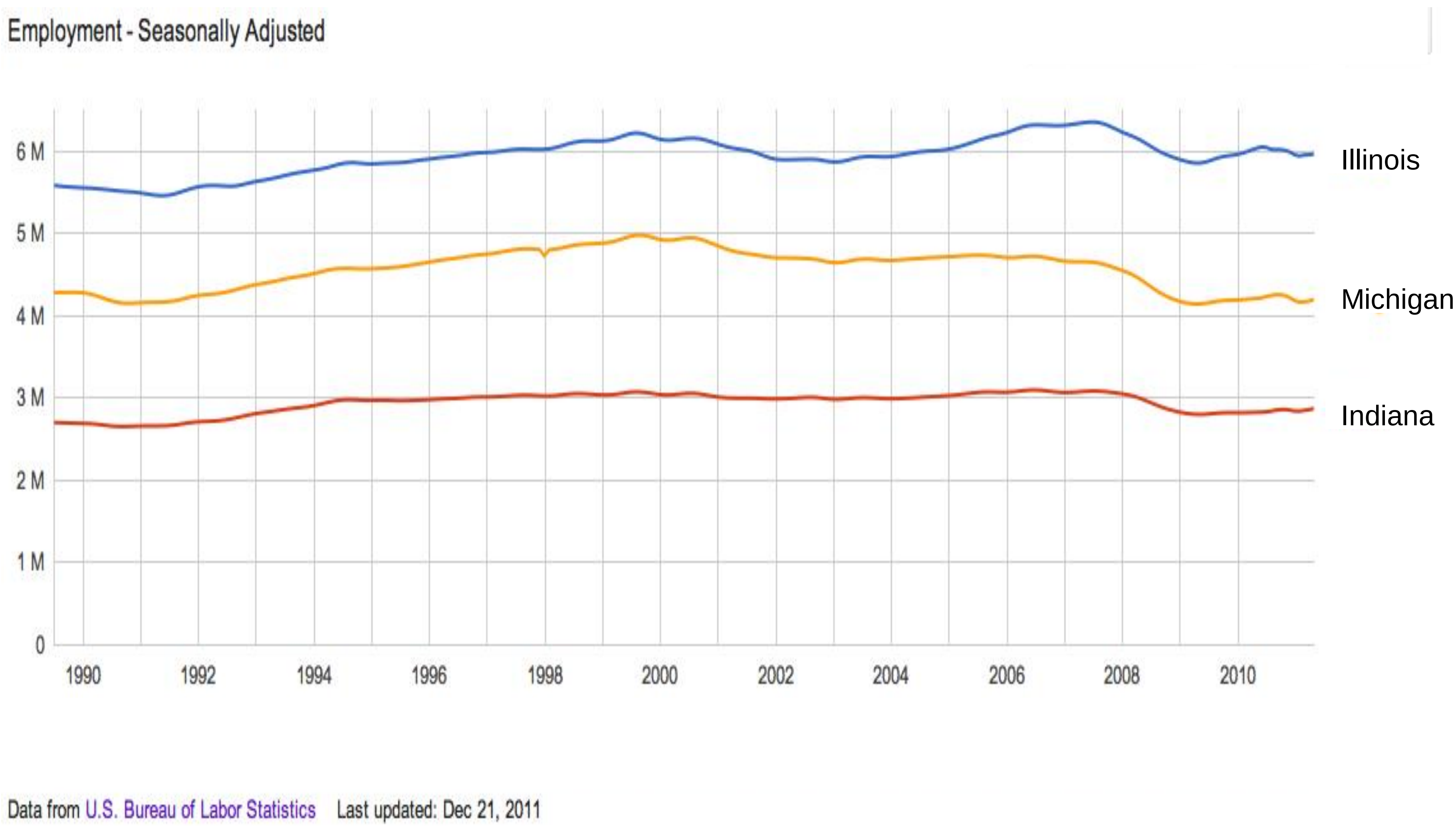
"After years of underperforming the U.S. in employment trends, Illinois has shown signs of an above-average recovery." (Moody's Investors Service)



Source: Bureau of Labor Statistics

Midwest states: IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI

Level of employment in Illinois, Michigan & Indiana



Summary: Status of Illinois' economic recovery

- Tepid US economic recovery
- Until recent months, Midwest recovering faster and Illinois leading Midwest
- However, Illinois' Nov. 2011 unemployment rate did not drop like rest of US
- Also, Illinois employment held steady in Nov.

II. Illinois Fiscal Situation and Projections

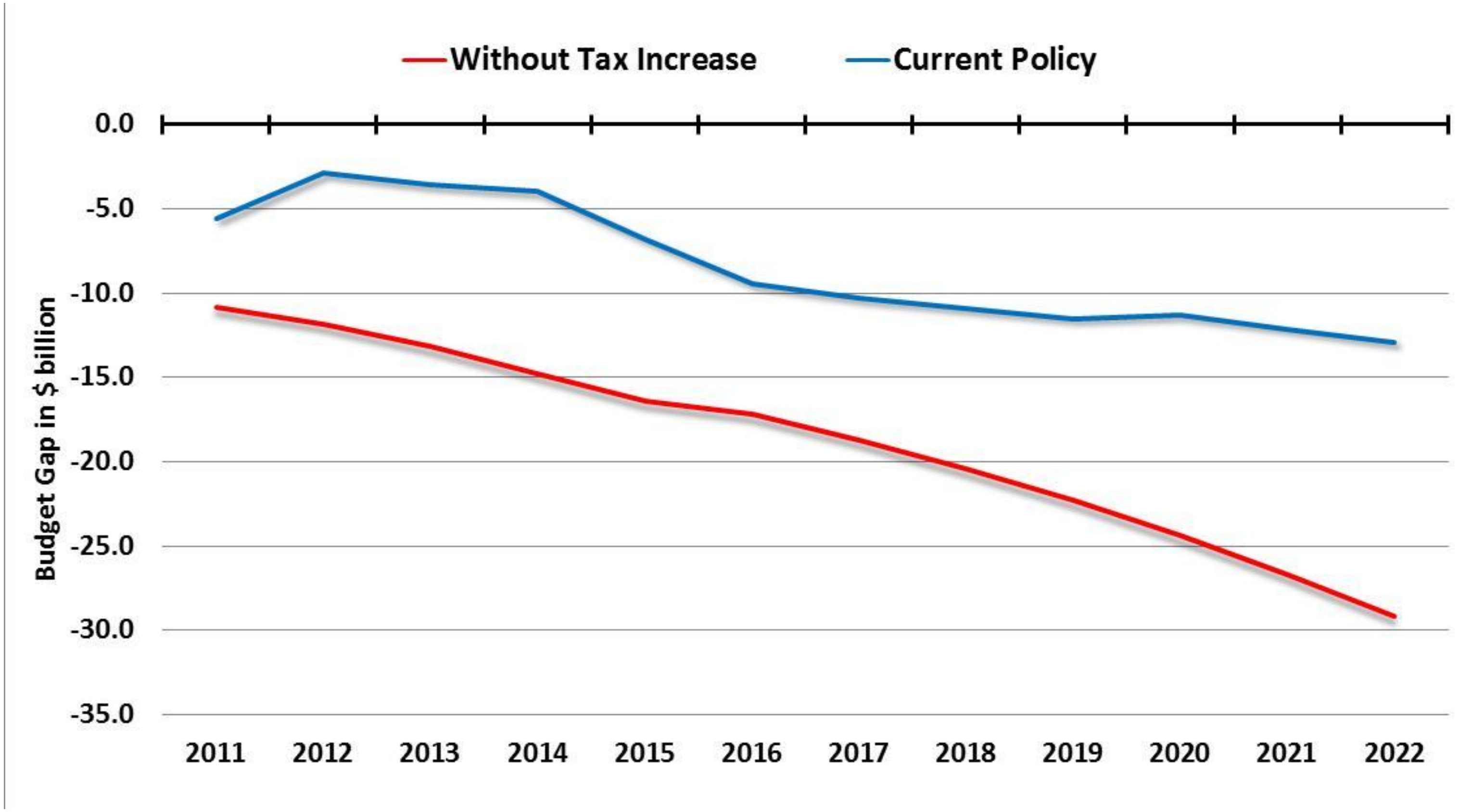
- Illinois fiscal crisis is due to
  - Structural deficit
  - Unpaid bills
  - Unfunded future obligations (primarily pensions)
- Since early 2011, tax increase, spending restraint and economic recovery have moved Illinois toward fiscal balance
- There is still a long way to go. Even if
  - Maintain higher tax rates past scheduled 2014 phase-out
  - And impose severe spending austerity,

  Achieving fiscal balance will require more than six years

Source: IGPA Fiscal Futures Model, *Illinois Report 2012*

Projected Budget Gap Fell Because of Tax Increase

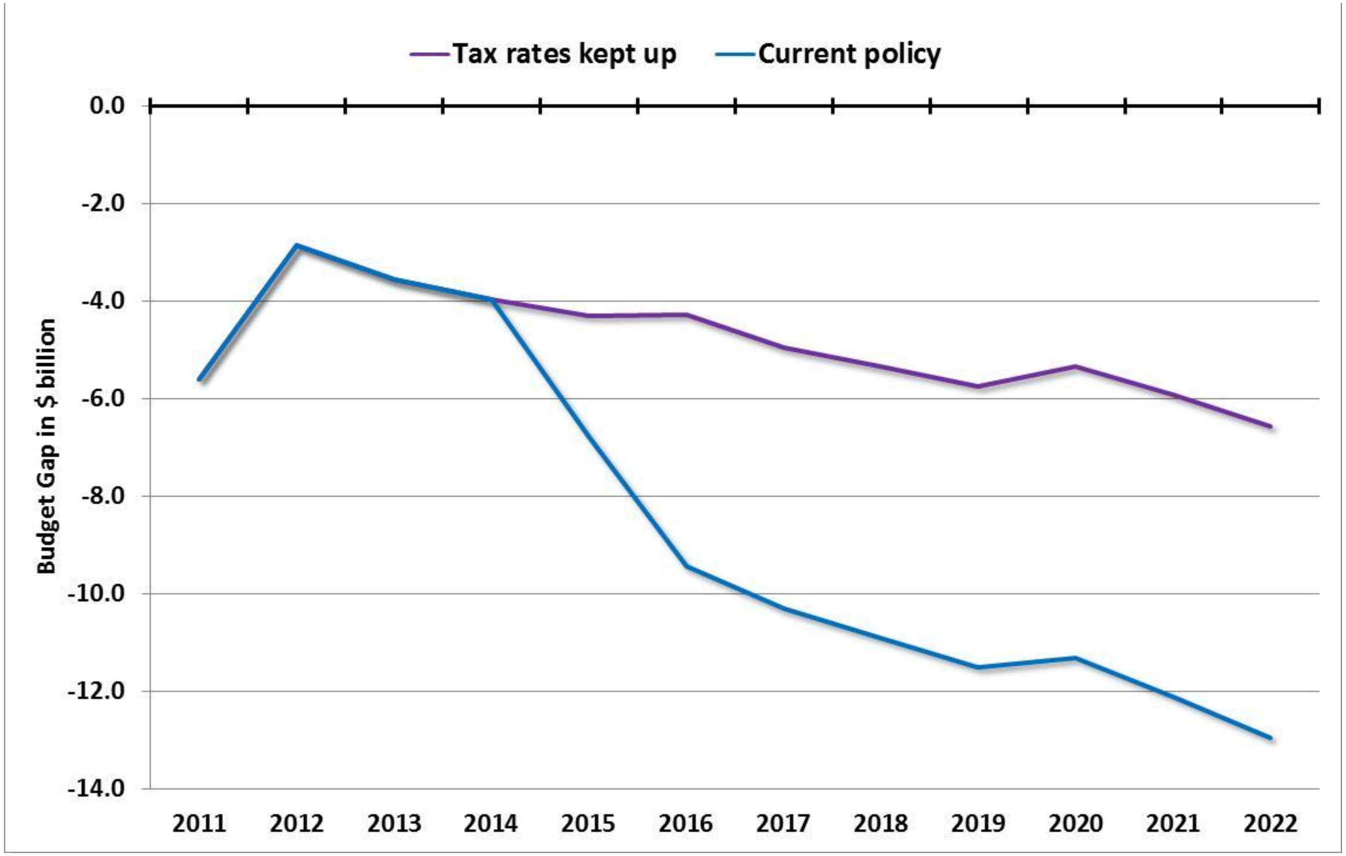
Projected Gap in Consolidated Budget
Before and After January 2011 Changes



Source: IGPA Fiscal Futures Model, *Illinois Report 2011* (without); *Illinois Report 2012* (current).

Projected Budget Gap Will Worsen After Tax Increase is Phased Out Without Further Action

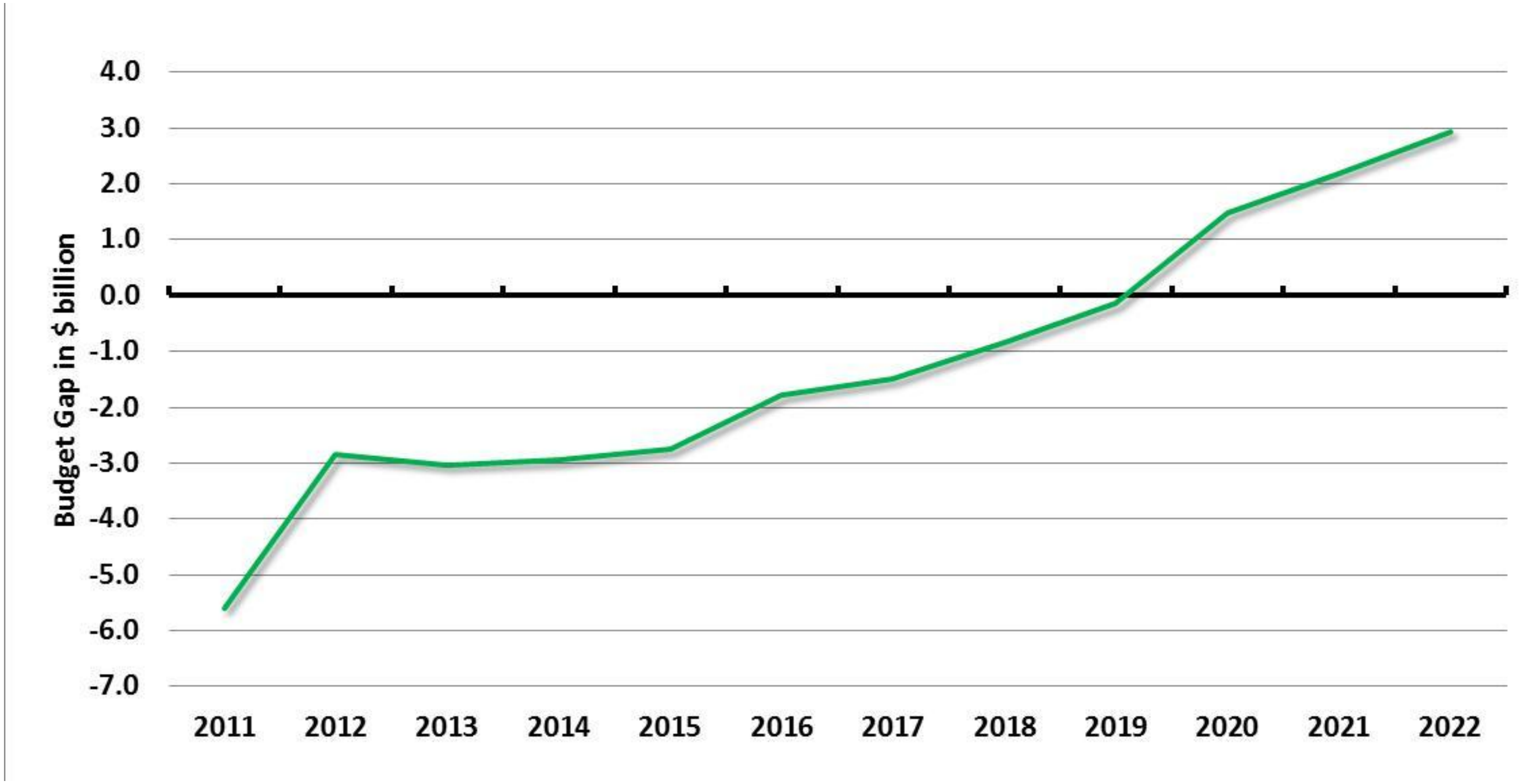
Projected Gap in Consolidated Budget
With & Without Phase-out of Income Tax Rate Increases



Source: IGPA Fiscal Futures Model, *Illinois Report 2012*

Consolidated budget could balance in 2019 with continued tax increase and spending austerity

Projected Gap in Consolidated Budget
If Future Growth in Spending is Held to Inflation Rate
AND Tax Rate Increases Are Not Phased Out



Source: IGPA Fiscal Futures Model, *Illinois Report 2012*

Governor's Office of Management & Budget Three Year Budget Projections (selected items)

Agency General Fund Operating Budget Groupings	2012	2013-2015
Providing a quality **education** & opportunities for growth	8,946	8,946
Enhancing the economic well-being of citizens	94	89
Protecting the lives and property of citizens	1,531	1,408
Protecting the most vulnerable among us	6,873	6,523
Improving access & cost effectiveness of **healthcare**	6,639	6,639
Improving the quality of life for citizens	68	63
Improving the efficiency & fiscal stability of state gov't	1,104	1,016

Source: Illinois Governor's Office of Management and Budget, January 3, 2012, "Three Year Budget Projection (General Funds), FY13-FY15," at http://www.state.il.us/budget/.

III. Recent Decline in Illinois' Bond Rating

ILLINOIS' G.O. BOND RATINGS OVER TIME			
Year	S&P	Moody's	Fitch
1998-1999	AA	Aa2	AA
2000-2002	AA	Aa2	AA+
2003-2005	AA	Aa3	AA
2006	AA	Aa3	AA-
2007	AA	Aa3	AA
2008	AA	Aa3	AA-
2009	A+	A2	A
2010	A+ (neg., CreditWatch)	A1 (stable)	A (neg.)
2011	A+ (neg.)	A1 (neg.)	A (stable)
2012	A+ (neg.)	A2 (stable)	A (stable)

KEY TO RATINGS: Ratings for each agency are in declining order of quality (e.g. AAA/Aaa ratings are highest).

S&P: AAA, AA, A, BBB, BB, B, CCC, CC, C, D* (AA through CCC ratings may be modified with (+) or (-) sign to show standing within category). D* indicates default

Moody's: Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C (AA through Caa ratings may be modified with numbers 1, 2, and 3 to show standing within category - 1 is highest, 3 is lowest).

Fitch: AAA, AA, A, BBB, BB, B, CCC, CC, C, D* (AA through B ratings may be modified with (+) or (-) sign to show standing within category).

Sources: 1998-2009: United States Census Bureau, *Statistical Abstracts*. 2010, 2011: ratings agencies' reports. Jan. 6, 2012: http://www.bondbuyer.com/news/illinois-downgrade-moodys-1034942-1.html.

NOTES: 1998-2011 data is as of 4th quarter. 2012 data as of January 6, 2012.

In response to the January 2011 tax increase, S&P and Fitch slightly upgraded their ratings.

In August 2011, Moody's downgraded as began factoring unfunded pension liability into states' credit ratings.

January 6, 2012, Moody's downgraded, "follows a legislative session in which the state took no steps to implement lasting solutions to its severe pension underfunding or to its chronic bill-payment delays."

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