MOODY'S
INVESTORS SERVICE

Rating Action: MOODY'S LOWERS STATE OF ILLINOIS' G.O. RATING TO A2 FROM A1, ASSIGNS A2 RATING TO PLANNED $800 MILLION ISSUANCE

Global Credit Research - 06 Jan 2012

OUTLOOK REVISED TO STABLE; $32 BILLION OF OUTSTANDING STATE DEBT AFFECTED

New York, January 06, 2012 -- Moody's Rating

Issue: General Obligation Bonds, Series A of January, 2012; Rating: A2; Sale Amount: $525,000,000; Expected Sale Date: 1-11-2012; Rating Description: General Obligation

Issue: General Obligation Bonds, Taxable Series B of January, 2012,; Rating: A2; Sale Amount: $275,000,000; Expected Sale Date: 1-11-2012; Rating Description: General Obligation

Opinion

Moody's Investors Service has lowered the State of Illinois' general obligation bond rating to A2 from A1 and revised the state's outlook to stable from negative. The A2 rating has also been assigned to $800 million general obligation January 2012 Series A and Taxable Series B bonds that the state has scheduled to price on January 11. Proceeds will finance school, transportation and other capital projects. We have also downgraded to A2 from A1 the rated portion of the state's $2.47 billion of outstanding Build Illinois sales tax revenue bonds, and to A3 from A2 $2.48 billion of Metropolitan Pier and Exposition Authority and $73 million of Civic Center Program bonds.

SUMMARY RATING RATIONALE

The downgrade of the state's long-term debt follows a legislative session in which the state took no steps to implement lasting solutions to its severe pension under-funding or to its chronic bill payment delays. Failure to address these challenges undermines near- to intermediate-term prospects for fiscal recovery. It remains to be seen whether the state has the political willingness to impose durable policies leading to fiscal strength, though in the recent past it has reached consensus on difficult decisions, such as temporary income tax increases enacted last year that stabilized state finances and reduced the state's need for non-recurring budgetary measures. Illinois retains the sovereign revenue and spending powers common to all U.S. state governments. These powers, along with Illinois' legal provisions giving G.O. debt service priority over other state spending, support the move to a stable outlook.

STRENGTHS

- Sovereign powers over revenue and spending

- Statutory provisions giving priority to debt-service over other state expenditures

CHALLENGES

- Severe pension funding shortfall

- Chronic use of payment deferrals to manage operating fund cash

- Weak management practices reflected in pension under-funding and payment delays

Outlook

The state's stable outlook reflects its sovereign powers over revenue and spending, as well as statutory provisions establishing priority of payment for G.O. debt service. Although the likelihood of effective, proactive movement on major challenges appears minimal at present, the state's stable outlook also relies on a demonstrated ability to make politically difficult choices as the need arises.

WHAT COULD MAKE THE RATING GO UP

- Adoption of a credible, comprehensive long-term pension funding plan

- Substantial progress in reducing payment backlog, and legal framework or plan to prevent renewed buildup of late bills

WHAT COULD MAKE THE RATING GO DOWN

- Early phase-out of 2011 tax increases without offsetting binding expenditure actions, increasing the structural gap

- Further deterioration in pension funded status or failure to make legally required contributions

PRINCIPAL RATING METHODOLOGY

The principal methodology used in this rating was Moody's State Rating Methodology published in November 2004. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 31 January 2012. ESMA may extend the use of credit ratings for regulatory purposes in the European Community for three additional months, until 30 April 2012, if ESMA decides that exceptional circumstances arise that may imply potential market disruption or financial instability. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings, public information, confidential and proprietary Moody's Investors Service's information, and confidential and proprietary Moody's Analytics' information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moodys.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Edward Hampton
Vice President - Senior Analyst
Public Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Marcia Van Wagner
Vice President - Senior Analyst
Public Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653