ILLINOIS ECONOMIC
and
FISCAL COMMISSION

THE ILLINOIS BOND WATCHER

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THE ILLINOIS BOND WATCHER
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Illinois Economic and Fiscal Commission

INTRODUCTION

One of the responsibilities of the Illinois Economic and Fiscal Commission is to examine the long-term debt of the State of Illinois. Illinois issues several forms of the formal long-term debt. State-supported bonds include the State's general obligation bonds, State-issued revenue bonds, and locally-issued revenue bonds that are repaid or secured by the State. Non-State-supported debt consists of those bonds which are issued by authorities created by the State, but for which the State is said to have only a moral obligation or no obligation to repay. In addition, the State incurs several other types of long-term debt not represented by formal debt instruments and, therefore, not covered by this report. These include unfunded pension liabilities, Certificates of Participation, and long-term leases.

This report provides information on the levels of State-supported and non-State-supported bond debt. In an ongoing attempt to provide clear concise information, please note the addition of the table entitled Bonds at a Glance. Shown on the following page, it has been added as a quick reference for often asked questions regarding bond sales, debt service, and bond ratings.

Additional information relating to the State of the Illinois bonded indebtedness may be obtained upon request.

2000 BOND WATCHER
EXECUTIVE SUMMARY

- The **total of all State-supported bonds sold** during FY 2000 was $985.0 million, which is 18.3% more than the $832.3 million sold during FY 1999.

- **Total general obligation bond sales** increased to $860.0 million in FY 2000 from $772.3 million in FY 1999. General obligation bond sales for new projects grew by $257.7 million, or nearly 42.8%, to $860.0 million in FY 2000. There were no refunding sales in FY 2000.

- **General obligation debt service** increased by 3.8% in FY 2000, to $717.1 million. In FY 2001, it is expected to grow 10.4%, to $791.5 million.

- While the dollar cost of general obligation and State-issued revenue bond debt service continues to increase, the cost of these payments relative to the State's general revenue funds is fairly constant. The overall **ratio of debt service to general funds revenues** has been under 4.5% since 1995, as shown in Chart 1, and is projected to be 4.05% by the end of FY 2001.

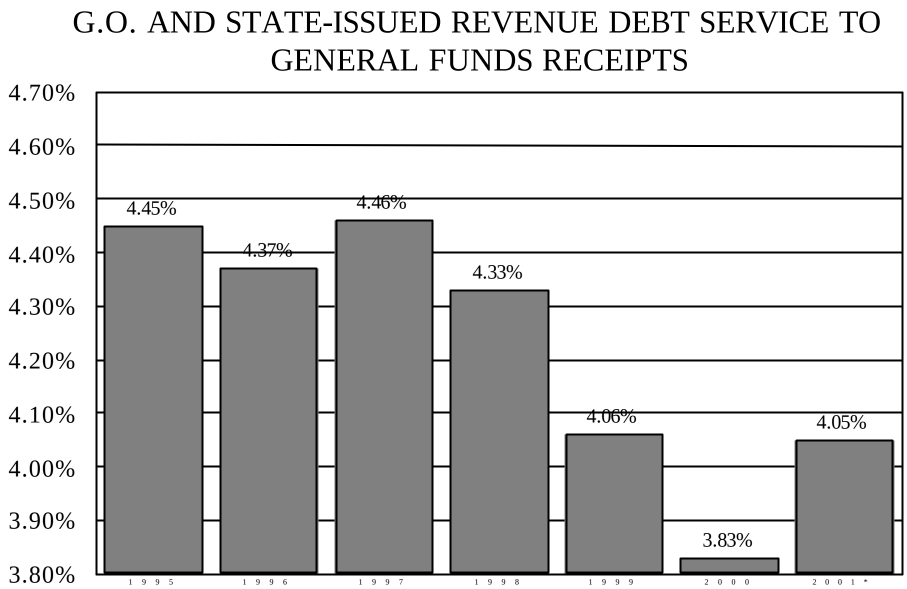
- The **general obligation bond authorization** increased one time during FY 2000, from $16.177 billion at the beginning of the fiscal year, to $17.036 billion at the end of the fiscal year. In May of 2000, P.A. 91-0710 increased the authorization by $0.859 billion.

- The FY 2001 **general obligation bond appropriations** are up $1.046 billion, to $4.541 billion. The FY 2001 appropriations represent a 29.9% increase over the FY 2000 appropriations of $3.495 billion.

- In 1997, Illinois had the 14th highest **per capita debt outstanding**, with $1,985 per person, compared to the national average of $1,702 per capita, shown in Chart 2.

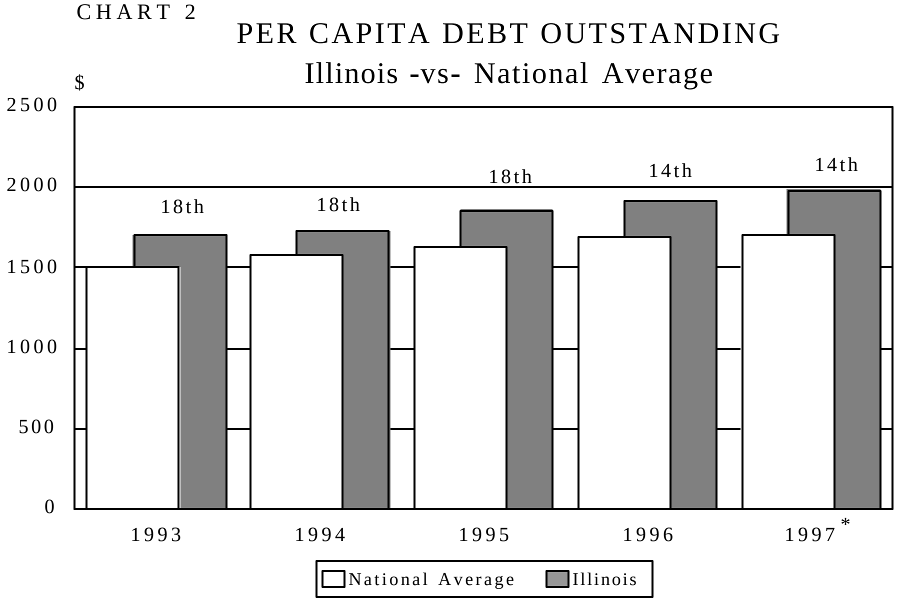
- The **State's bond rating** was upgraded to AA from AA- by Standard & Poor's Rating Service in July 1997. In June of 1998, the State's bond rating was upgraded to Aa2 from Aa3 by Moody's Investor Service. As of June 2000, Fitch, Inc. raised their rating of Illinois bonds from AA to AA+, while Standard & Poor's added a positive outlook to their rating of Illinois bonds.

CHART 1



* IEFC Estimate

CHART 2



- The most recent data available, from State Rankings 2000

ILLINOIS BONDS AT A GLANCE

($ in Millions)

	FY 2000	From Previous Year $ Chg.	From Previous Year % Chg.	Estimated 2001	From Previous Year $ Chg.	From Previous Year % Chg.
Bond Sales*						
General Obligation	$860.0	$257.0	42.6%	$1,302.0	$442.0	51.4%
Revenue	125.0	65.0	108.3%	125.0	0	0.0%
Locally-issued †	393.4	393.4	100.0%	260.0	-133.4	-33.9%
TOTAL	**$1,378.4**	**$546.1**	**65.6%**	**$1,687.0**	**$308.6**	**22.4%**
Outstanding Debt						
General Obligation	$5,885.8	$429.5	7.9%	$6,733.8	$848.0	14.4%
Revenue	1,798.1	149.6	9.1%	1,845.2	47.1	2.6%
Locally-issued	3,070.3	839.3	37.6%	3,693.9	623.6	20.3%
TOTAL	**$10,754.1**	**$1,418.1**	**15.2%**	**$12,272.9**	**$1,518.8**	**14.1%**
Debt Service						
General Obligation	$717.1	$26.4	3.8%	$791.5	$74.3	10.4%
Revenue	173.3	2.9	1.7%	182.8	9.5	5.5%
Locally-issued	159.7	42.1	35.8%	174.6	14.9	9.3%
TOTAL	**$1,050.1**	**$71.4**	**7.3%**	**$1,148.8**	**$98.7**	**9.4%**
General Revenues	**$23,250.0**	**$1,576.0**	**7.3%**	**$24,070.0**	**$820.0**	**3.5%**
G.O. & Revenue Debt Service as % General Revenues	**3.83%**			**4.05%**		
Bond Rating						
Moody's	Aa2					
Standard & Poor's	AA positive outlook					
Fitch, Inc.	AA+					

*does not include refunding sales

† includes RTA SCIPs; does not include ISFA bonds to be issued for the Soldier Field renovation

SUMMARY OF STATE-SUPPORTED BOND DEBT

State-supported bond debt can be divided into three categories: general obligation debt backed by the full faith and credit of the State, State-issued revenue debt supported by dedicated tax revenue or lease payments, and locally-issued revenue debt supported by the pledge of State taxes or lease payments. Bonds are sold to provide funds either for projects or to refund previously-issued bonds.

The State issues general obligation bonds for its continuing capital program that began in FY 1971. Bonds secured by dedicated tax revenues are issued by the State for the Build Illinois program and for civic centers. Certificates of participation (COPs) have been authorized and issued by the State to finance the lease/purchase of equipment and, recently, the lease/purchase of correctional facilities. Locally issued revenue bonds supported by State revenue include those issued by the Metropolitan Pier and Exposition Authority (McCormick Place), the City of Collinsville (State Office Building), the Springfield Airport Authority, the Illinois Sports Facilities Authority, and the Regional Transportation Authority. In FY 1993 authorization was given to McCormick Place to issue revenue bonds supported by a different repayment structure than the original bonds, the proceeds of which were used for the expansion of their exhibition facilities.

On June 15, 1999, Governor Ryan's proposed Illinois FIRST infrastructure program was passed into law. The legislation authorized $4.8 billion, which included $3.5 billion in new general obligation debt and $754.0 million of Build Illinois debt, as well as additional money for baseline capital. It also authorized $1.6 billion of debt to be issued by the Regional Transportation Authority (RTA). The bonds are to be sold over seven years to meet anticipated construction schedules. The legislation authorizing the Illinois FIRST bonding included $619 million in new general obligation debt that had been previously proposed in the Governor's FY 2000 capital plan and increased $500 million of authorization for refunding. Both Build Illinois and general obligation received additional authorization in May of 2000 of $61.0 million and $858.8 million, respectively.

The following report looks at various debt-related statistics in an attempt to explain what has occurred in this area and what the potential direction of the State’s bonding programs may be in the future. The estimates contained within for FY 2001 are projections by the Illinois Economic and Fiscal Commission based on the Bureau of the Budget’s estimate of FY 2001 bond sales.

Illinois FIRST and Soldier Field Renovation

Illinois FIRST (Fund for Infrastructure, Roads, Schools and Transit) is a $12.0 billion, five-year capital program started in FY 2000. The program is designed to spend $4.1 billion on mass transit, $4.1 billion on other transportation needs (i.e. roads, bridges, etc.), $2.2 billion on school construction, and $1.6 billion on environmental and other local projects. The Governor proposed to pay for the program with $4.3 billion in new State bond debt; $1.1 billion in school district matching funds; $2.0 billion in pay-as-you-go funding; $1.6 billion in new debt issued by the RTA; and $3.0 billion in leveraged federal construction matching funds.

The Illinois FIRST program is included in Public Acts 91-0037, 91-0038, and 91-0039 signed by the Governor on June 15, 1999. Public Act 91-0037 increased the bond authorization for the RTA. The act increased the RTA's authority to issue Strategic Capital Improvement Projects (SCIP) bonds by $1.3 billion. The additional bonding authority is to be used in increments of $260.0 million in every calendar year from 2000 through 2004. The Act also raised the State's liquor tax, motor vehicle registration and title fees, and other fees to increase State revenues by the approximately $571.0 million which will be required annually for Illinois FIRST's additional debt service and "pay as you go" projects.

Public Act 91-0039 increased general obligation bond authorization to $16.178 billion, an increase of $5.283 billion from $10.895 billion. The new debt will be sold over 7 years, which began in FY 2000, to accommodate anticipated construction schedules. Authorization was also increased twice for the Build Illinois program to fund other infrastructure programs, in 1999 by approximately $755 million and in May 2000 by another $61.0 million, for a total authorization of $2.852 billion.

Illinois Sports Facilities Authority- Soldier Field Renovation

In November 2000, the General Assembly passed legislation amending the Illinois Sports Facilities Authority (ISFA) Act to finance renovations for the Chicago Bears Stadium at Soldier Field and related lakefront improvements. The proposal would increase the bonding authority by $399 million, with $387 million in bonds for construction and the additional bond money for costs of bond issuance. The effective date of the legislation is June 1, 2001; as a result, it is assumed actual sales will not occur until FY 2002. The total cost of the project would be $587 million with $200 million to be paid for by the Bears (with the help of a NFL loan). These bonds would be backed by an advance of State hotel tax revenues, to be paid back by ISFA Chicago hotel tax receipts and the City of Chicago's portion of the Local Government Distributive Tax. Debt of the ISFA is not backed by a pledge of the State's full faith and credit.

BOND SALES

The following table provides information on the State-supported bond sales which have occurred during the past two fiscal years.

TABLE 1: BOND SALES
($ in millions)

Date of Issuance	Amount	Type of Bond	True Interest	Competitive or Negotiated	Purpose
11/10/98	$122.3	College Savings (GO)	4.45%	Negotiated	Project Funding
02/09/99	60.0	Build Illinois	4.67%	Competitive	Project Funding
03/25/99	400.0	General Obligation	4.75%	Competitive	Project Funding; Refunding (169.3)
06/24/99	250.0	General Obligation	5.28%	Competitive	Project Funding
Total FY'99	**$832.3**				
11/03/99	$100.0	General Obligation	5.60%	Negotiated	Project Funding
02/09/00	160.0	General Obligation	5.86%	Negotiated	Project Funding
04/19/00	300.0	General Obligation	5.51%	Negotiated	Project Funding
06/08/00	125.0	Build Illinois	5.88%	Negotiated	Project Funding
06/27/00	300.0	General Obligation	5.58%	Negotiated	Project Funding
Total FY'00	**$985.0**				

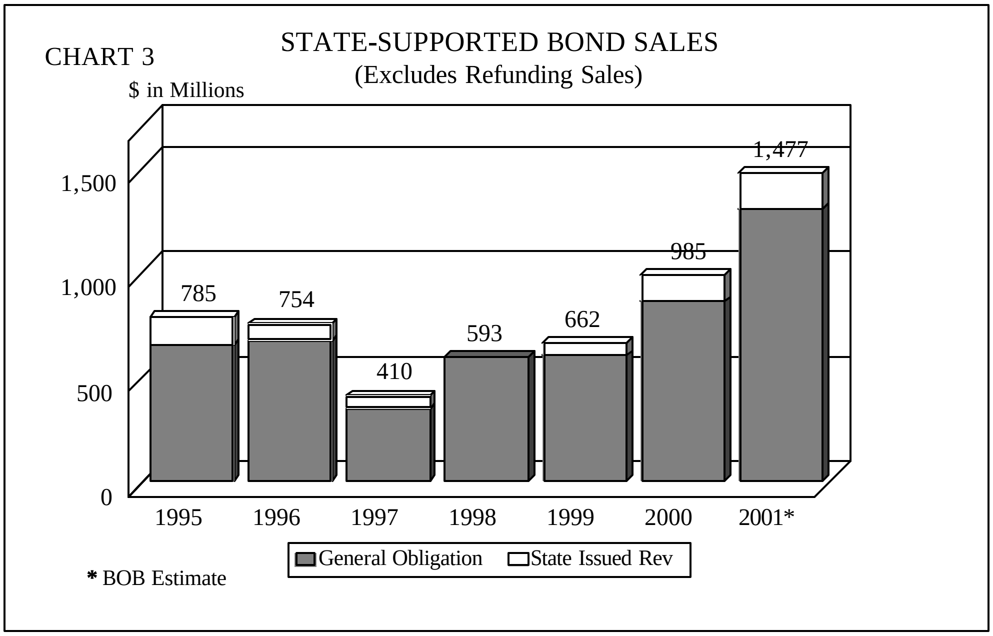
As Table 1 shows, bonds totaling $832.3 million were sold during FY 1999 with the total being distributed among both project funding and refunding. The State sold $772.3 million of general obligation bonds, $169.3 million of which was issued to refund outstanding debt. The State also sold $60.0 million in revenue bonds for Build Illinois project funding.

The total amount of bond sales during FY 2000 represents an 18.3% increase from the FY 1999 level. Five bond issues were sold totaling $985.0 million during FY 2000. The bond sales included four general obligation issues totaling $860.0 million; and one Build Illinois sale of $125.0 million. Table 2 illustrates the changes in bond sales by purpose for FY 1999 to FY 2000.

TABLE 2: TOTAL BOND SALES BY PURPOSE
($ in Millions)

	FY 1999	FY 2000	$ Change	% Change
Projects	$663.0	$985.0	$322.0	48.6%
Refunding	169.3	0.0	-169.3	-100.0%
TOTAL	**$832.3**	**$985.0**	**$152.7**	**18.3%**

Bonds sold to fund project expenditures are shown in Chart 3 and are further described according to the type of State support.



General Obligation Bonds

Chart 3 shows the level of general obligation sales for projects for the past six fiscal years, along with an estimate of the level for FY 2001. Chart 3 also indicates the level of State-issued revenue bonds. In FY 2000, total general obligation bond sales, excluding refunding sales, increased $257.0 million to $860.0 million from $603.0 million in FY 1999. Table 3 breaks down general obligation sales for FY 1999 and FY 2000 by purpose.

TABLE 3: G.O. BOND SALES BY PURPOSE
($ in Millions)

	FY 1999	FY 2000	$ Change	% Change
Projects	$603.0	$860.0	$257.0	42.6%
Refunding	169.3	0.0	-169.3	-100.0%
TOTAL	**$772.3**	**$860.0**	**$87.7**	**11.4%**

The Bureau of the Budget estimate for FY 2001 indicates an increase in the sale of general obligation bonds for projects. The projected $1.3 billion in bond sales for

FY 2001 would represent a $440.0 million, or 51.2%, increase over FY 2000 sales of $860.0 million.

Illinois FIRST. Most of the increase in general obligation bond sales in FY 2000 was attributed to the Illinois FIRST Program. With $4.3 billion of Illinois FIRST bonds to be sold over seven fiscal years, the State will average an additional $600 million bond sales in each of those fiscal years. (NOTE: Of the total dollar amount of general obligation bonds sold as Illinois FIRST bonds, not all projects being funded are Illinois FIRST. The Bureau of the Budget may include references to Illinois FIRST on the cover and then describe the breakdown of funding in the bond sale's Official Statement.)

State-Issued Revenue Bonds

As Chart 3 on the preceding page indicates, the level of State-supported revenue bond sales, shown by the white area has increased from the previous fiscal year from $60.0 million in FY 1999 to $125.0 million in FY 2000. It is estimated that in FY 2001, that figure will increase to $175.3 million.

Build Illinois. The Build Illinois program began in 1985 as a $1.3 billion economic development initiative composed of $948.0 million in bonds and $380.0 million in current funding. Since that time, the bond program has been expanded and authorization increased. In 1999, Public Act 91-0039 made an increase of $754.0 million. Again in May of 2000 (Public Act 91-0709) the legislature added another $61.0 million to the program. As it stands today, total bond authorization is $2.852 billion with $2.112 billion having been used, leaving $740 million in remaining authorization for projects. Most of the remaining authorization was granted in legislation empowering the Illinois FIRST program.

In FY 2000 sales for Build Illinois were $125.0 million. The Bureau of the Budget estimates $125.0 million of new money bond sales for Build Illinois in FY 2001. Table 4 compares all Build Illinois bond sales by purpose for FY 1999 and FY 2000.

TABLE 4: BUILD ILLINOIS BOND SALES
By Purpose
($ in Millions)

	FY 1999	FY 2000	$ Change	% Change
Projects	$60.0	$125.0	$65.0	108.3%
Refunding	0.0	0.0	0.0	N/A
TOTAL	**$60.0**	**$125.0**	**$65.0**	**108.3%**

Civic Centers. In FY 1992, the State sold $75.0 million in civic center bonds for various projects throughout the State. This sale amount was based on the estimated 3-year spending needs so that no additional sales would be required for several years. During FY 1998, the State issued $37.6 million in civic center refunding bonds. No civic center bonds were sold during FY 1999 or FY 2000. The State sold $50.3 million in civic center refunding bonds in September 2000, with no new money civic center bonds anticipated for FY 2001.

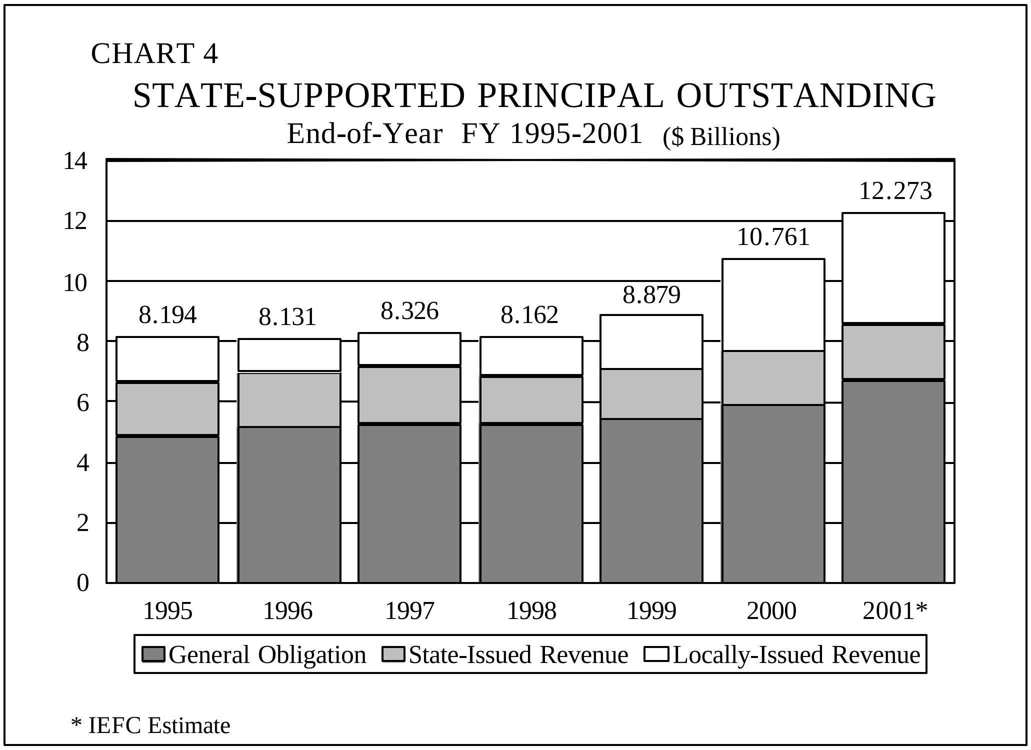
Locally-Issued Revenue Bonds

In 1993 the Metropolitan Pier and Exposition Authority sold $868.8 million of McCormick Place bonds for construction of an expansion. As mentioned previously, these bonds have a different security from those bonds sold earlier. The primary source of repayment is the receipt of several specific taxes collected in the City of Chicago and Cook County, with a limited pledge of State sales tax revenues to the extent these revenues are insufficient. In FY 1994, 1996 and 1998 the Metropolitan Pier and Exposition Authority (MPEA) issued Expansion Project Bonds and Expansion Project Refunding Bonds. During the 1999 spring session, passage of P.A. 91-0101 increased authorization for Expansion Project bonds from $1.037 billion to $1.307 billion, an increase of $270 million. In FY 2000, the MPEA issued $133.4 million of Series 1999A Expansion Project Bonds and $134.2 million of Series 1999B Expansion Project Refunding Bonds to restructure existing debt and for repairs and small capital projects at McCormick Place and Navy Pier. MPEA also issued $152.9 million in Series 1999C Expansion Project Refunding Bonds and $23.1 million in Series 1999D Expansion Project Refunding Bonds (taxable) to advance refund portions of the Series 1992A, 1994, 1996A and 1998 Bonds.

As part of the Illinois FIRST program, the Regional Transportation Authority (RTA) was authorized to issue an additional $1.3 billion in debt over five years. In FY 2000, the RTA issued $260.0 million in Strategic Capital Improvement Project (SCIP) bonds and $298.7 million in refunding bonds. The RTA is expected to issue $260 million in SCIP bonds in each of the next four years.

OUTSTANDING DEBT

Following the rise in new money bond sales started by the Build Illinois initiative in FY 1986 and continuing with the more recent McCormick Place expansion bonds and Illinois FIRST program, State-supported principal continues to rise, as shown in Chart 4.



As Chart 4 indicates, at the end of FY 1995, State-supported principal outstanding totaled $8.194 billion. By the end of FY 2000, this level increased to $10.761 billion. It is estimated that at the end of FY 2001, total outstanding State-supported principal will be $11.909 billion, a 10.7% increase over the FY 2000 level.

General Obligation Bonds

As Chart 4 demonstrates, the level of outstanding general obligation principal has been growing steadily even before approval of the Illinois FIRST program. At the end of FY 1995, the State had $4.869 billion of outstanding general obligation principal. This level increased to $5.886 billion at the end of FY 2000. This represents a $1.017 billion increase from FY 1995 to FY 2000, averaging $203.4 million per year. For FY 2001, outstanding principal is expected to increase by $848.0 million to $6.734 billion. The increasing bond principal outstanding in FY 2000 and FY 2001 can be explained by higher levels of new money general obligation bond sales mostly for Illinois FIRST programs.

State-Issued Revenue Bonds

At the end of FY 1995, $1.797 billion of State-issued revenue bonds were outstanding as compared to $1.798 billion at the end of FY 2000. As opposed to general obligation principal outstanding increasing almost every year from FY 1995 to FY 2000, state-issued revenue principal outstanding increased from FY 1995 to FY 1997, from 1.797 billion to 1.924 billion. The amount then dropped in FY 1998 to 1.589 billion, a decrease of 17.4%. From FY 1998 to FY 2000, state-issued revenue principal outstanding grew from 1.589 billion to 1.798 billion. Based on the Bureau of the Budget's estimate for FY 2001, Build Illinois bond sales and a Civic Center refunding issue will increase the total level of State-issued revenue bonds outstanding to approximately $1.845 billion at the end of FY 2001.

Locally-Issued Revenue Bonds

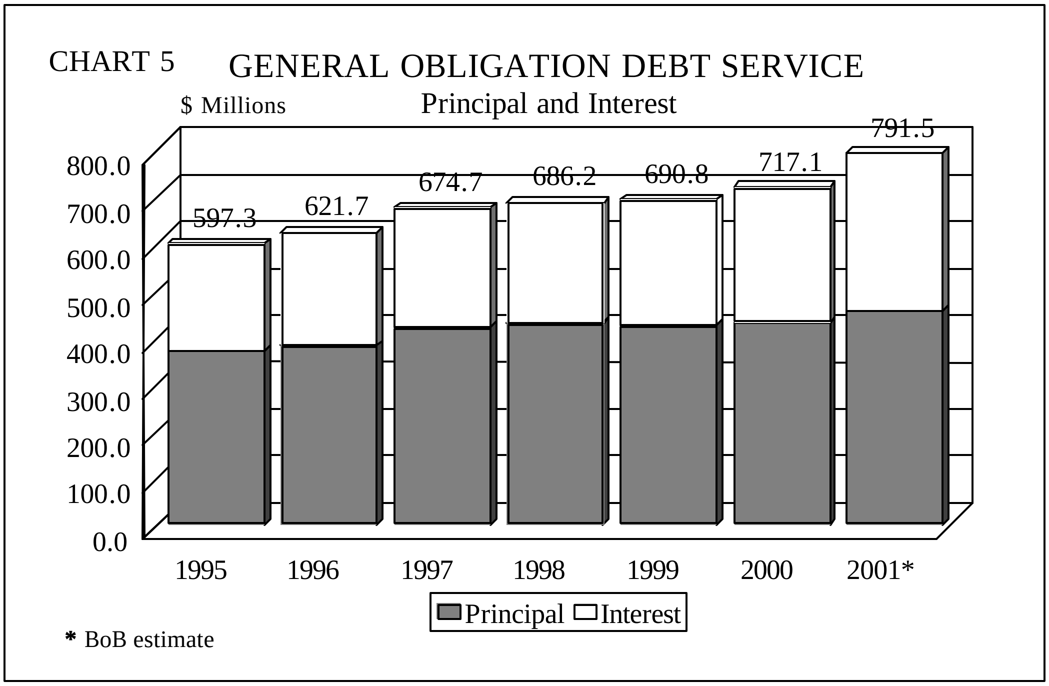
Principal outstanding for locally issued revenue bonds has seen growth in the past year. In FY 2000, the amount of principal outstanding increased to $3.070 billion from the FY 1999 level of $2.231 billion, an increase of 37.6%. Including another $260.0 million in SCIP bonds for Illinois FIRST the RTA is to issue in FY 2001 and the sale of $399 million of bonds for the Soldier Field Renovation, the total level of locally-issued revenue bonds outstanding is expected to increase approximately to $3.694 billion.

DEBT SERVICE

As the level of outstanding debt grows, the amount of principal and interest payments, or debt service, increases as well. The following section looks at the required debt service levels for the various types of State-supported debt.

General Obligation

Chart 5 shows the amount of required general obligation debt service. Generally, two-thirds of these amounts are supported by the State's general funds, with the remainder paid from the Road Fund. As Chart 5 indicates, the FY 2000 debt service of $717.1 million represented an increase of $26.4 million, or 3.8%, over the FY 1999 level of $690.7 million. The Bureau of the Budget estimates this debt service to cost $791.5 million in FY 2001, an increase of $74.3 million, or 10.4%, over FY 2000. Illinois FIRST related debt is expected to add $288 million annually to general obligation debt service payments when all additional authorized debt has been issued.



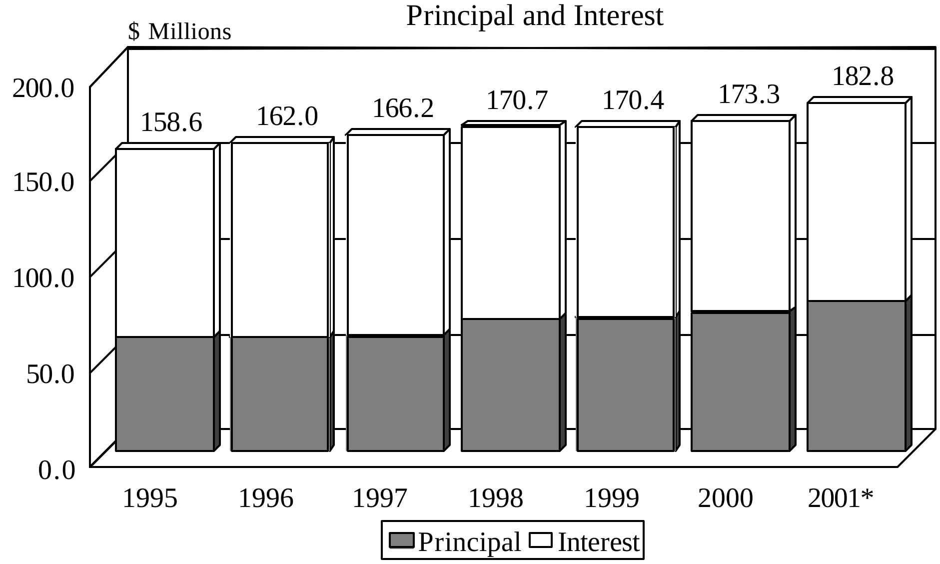
State-Issued Revenue Bonds

State-issued revenue bonds currently outstanding include Build Illinois and civic center bonds. Total debt service costs for the remaining bonds outstanding in this category are shown in Chart 6.

As Chart 6 indicates, the $182.8 million of payments on principal and interest estimated in FY 2001 represents an increase of $9.5 million, or 5.5%, from the $173.3 million in FY 2000. The amount of principal to be paid in FY 2001 is estimated at $79.0 million, an increase of $5.8 million, or 7.9%, over the FY 2000 principal payments of $73.2 million. The amount of interest to be paid in FY 2001 is estimated to be $103.9 million, an increase of $3.8 million, or 3.8%, from the FY 2000 interest paid of $100.1 million.

CHART 6 STATE-ISSUED REVENUE DEBT SERVICE

Principal and Interest



* BOB Estimate

Build Illinois. These bonds comprise the majority of debt service costs for the state-issued revenue bonds. Total debt service amounts for the Build Illinois program totaled $159.0 million in FY 2000, up 1.9% from a level of $156.1 million in FY 1999. The Bureau of the Budget estimates the FY 2001 level of principal and interest payment to be $168.9 million, which would represent a $9.9 million, or 6.2%, increase from FY 2000. Illinois FIRST would increase debt service payments $50.5 million a year for 25 years.

Civic Centers. The State refunded $48.6 million of Series 1990A and $0.7 million of Series 1990B civic center bonds in September 2000 (FY 2001) to lower debt service costs through the year 2016. Because these bonds were issued using a level debt service repayment structure, annual debt service costs will remain at approximately $14.0 million per year. In FY 2000, total principal and interest payments were $14.3 million. The level for FY 2001, due to refunding, is estimated to decrease to $13.9 million. Debt service payments will be approximately $13.8 to $13.9 million annually through FY 2016, and then increase to $14.4 million through FY 2020. Additional sales of civic center bonds in FY 2001 are not anticipated.

BOND AUTHORIZATIONS

General Obligation Bonds

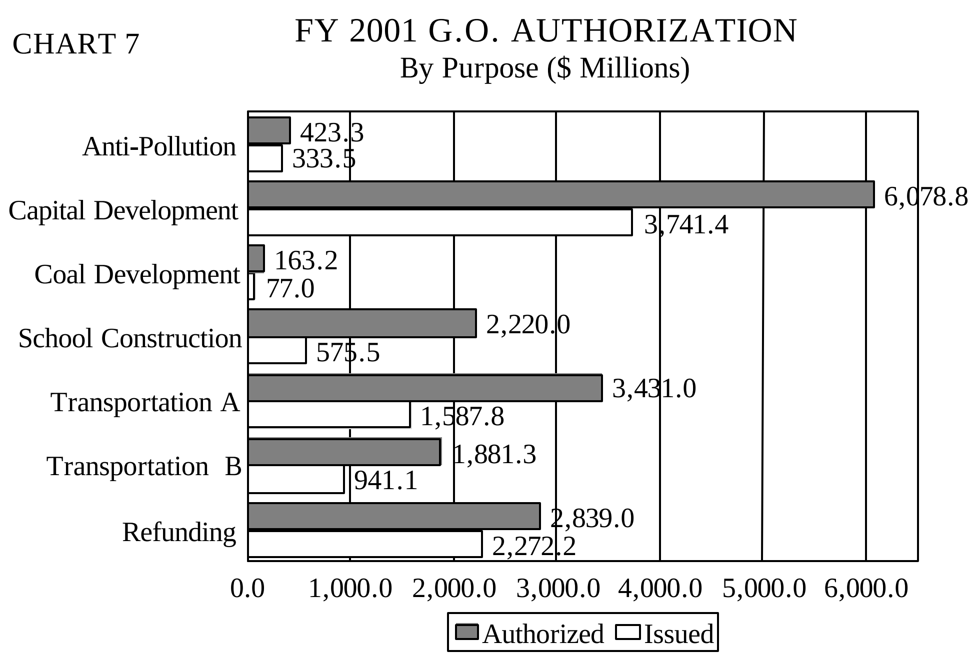
The general obligation bond authorization increased one time during FY 1999, from $10.895 billion at the beginning of the fiscal year, to $16.177 billion at the end of the fiscal year. In June of 1999, the Governor signed legislation (P.A. 91-0039) which increased the total authorization by $5.282 billion.

In May of 2000, the Governor approved Public Act 91-0710, which separated out refunding from other bond authorizations, and increased general obligation authorization overall by $858.8 million, for a total of $17,036,657,592. The General obligation Bond Act is broken out as follows:

Refunding bonds	$ 2,839,025,000
Bond Funds Categories: (Capital Facilities, Ant-Pollution, Coal Development, School Construction, Transportation A &B)	$14,197,632,592

Chart 7 demonstrates the current authorization broken out by purpose, along with the amounts increased or decreased within each category, as of June 30, 2000.

CHART 7



Note: Authorization as enacted; issued as of 6/30/00

State-Issued and Locally-Issued Revenue Bonds

In May 2000, Public Act 91-0709 increased the debt authorization of the Build Illinois program by $61.0 million, from its June 1999 authorization of $2.791 billion to $2.852 billion. The Build Illinois program had $740.4 million of available bond authorization at the end of FY 2000.

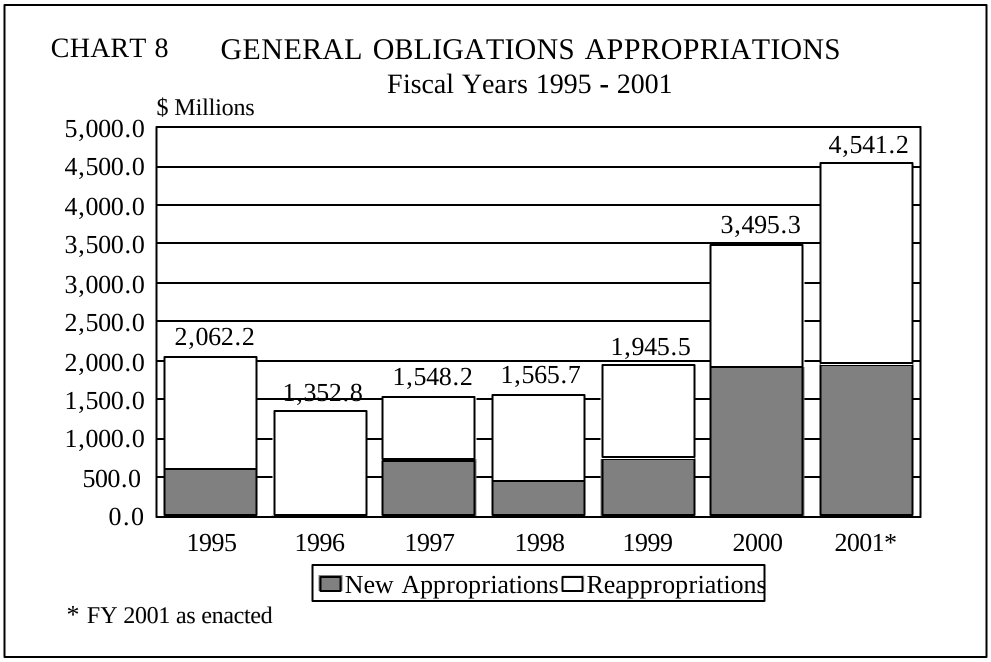
In November 2000, the General Assembly passed legislation amending the Illinois Sports Facilities Authority (ISFA) Act to finance renovations for the Chicago Bears Stadium at Soldier Field and related lakefront improvements. The proposal would increase the bonding authority by $399 million, with $387 million in bonds for construction and the additional bond money for costs of bond issuance. The effective date of the legislation is June 1, 2001; as a result, it is assumed actual sales will not occur until FY 2002. The total cost of the project would be $587 million with $200 million to be paid for by the Bears (with the help of a NFL loan). These bonds would be backed by an advance of State hotel tax revenues, to be paid back by ISFA Chicago hotel tax receipts and the City of Chicago's portion of the Local Government Distributive Tax. Debt of the ISFA is not backed by a pledge of the State's full faith and credit.

APPROPRIATIONS OF BOND FUNDS

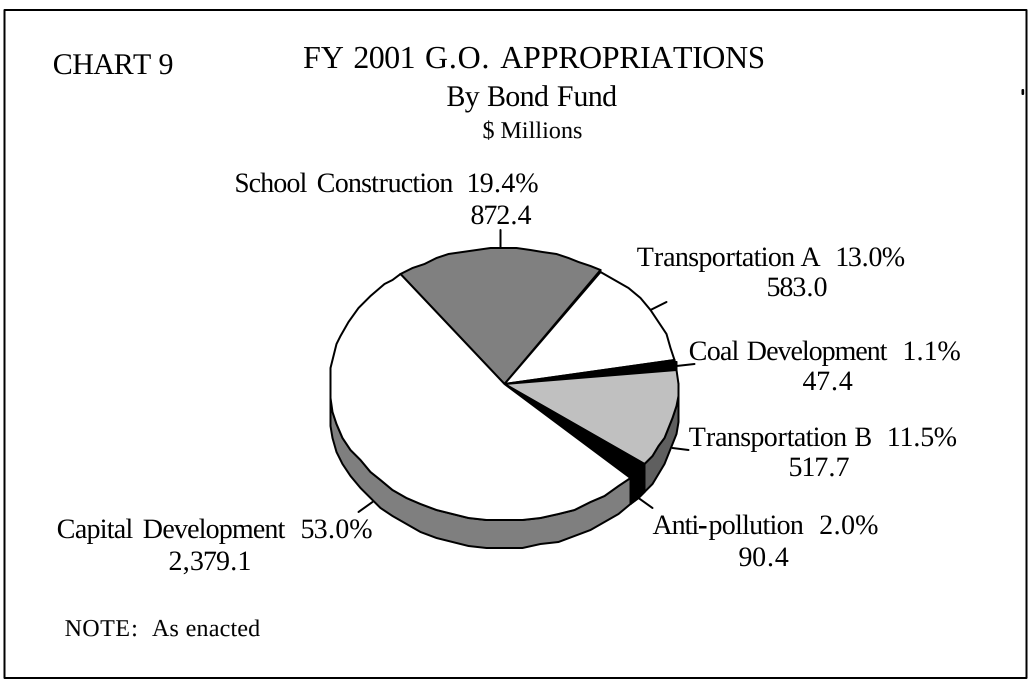
General Obligation Bonds

The FY 2001 estimate of total general obligation appropriations of $4.541 billion is up $1.046 billion from the FY 2000 level of $3.495 billion. The appropriations consist of $2.590 billion in re-appropriations with $1.951 billion in new appropriations. The FY 2001 new appropriation request of $1.951 billion represents a 1.7% increase over the FY 2000 level of $1.918 billion. The $1.013 billion increase in FY 2001 re-appropriations reflects a 64.2% increase from the FY 2000 level of $1.577 billion. These figures are presented in Chart 8, along with the corresponding levels going back to FY 1995.

The Bureau of the Budget has indicated that $1.302 billion in general obligation bonds will be issued for projects in FY 2001, which is reflected in the increased appropriations for general obligation bond funds. Re-appropriations are 57% of all appropriations for FY 2001.



As Chart 9 indicates, nearly 53% of all FY 2001 appropriations (both new and re-appropriations) are from the Capital Development Fund. All funds received new appropriations and re-appropriations. As parts of the whole general obligation bond appropriations pie, there were shifts in the percentages held by the different bond funds, the major changes being an increase in Transportation A funds from 8.6% to 13.0%, and a decrease in Capital Development funds from 56.3% to 53.0%



The Capital Development Fund is further broken down in Table 5.

TABLE 5: FY 2001 G.O. APPROPRIATIONS By Capital Development Sub-Categories ($ in Millions)			
	Re-Appropriations	*New Appropriations*	*Total*
Higher Education	$511.7	$213.1	$724.9
Corrections	373.6	231.4	605.0
Conservation	101.7	84.3	186.1
Mental Health	120.5	28.5	149.0
State Facilities	212.2	88.0	300.2
Water Resources	55.2	13.0	68.2
Libraries	2.1	0.0	2.1
Local Governments	90.0	179.8	269.8
Open Land Trust	33.0	40.0	73.0
Bond Sale Expenses	0.0	1.0	1.0
TOTAL	**$1,500.0**	**$879.1**	**$2,379.1**

The sub-category of Higher Education has the highest level of re-appropriations and the second highest level of new appropriations. It is used for the improvement, construction, and maintenance of facilities on or around the various universities and community colleges located in the State. The largest subcategory for new appropriations is Corrections which is the second highest for reappropriations. Its funds are used to construct and maintain the State's correctional facilities. Each sub-category shows high levels of re-appropriations, reflecting the overall increase of $368.3 million, or 32.5%, in re-appropriations for the Capital Development Fund from FY 2000 to FY 2001. New appropriations for the Capital Development Fund for FY 2001 show an increase of $51.8 million, or 6.3%, from FY 2000.

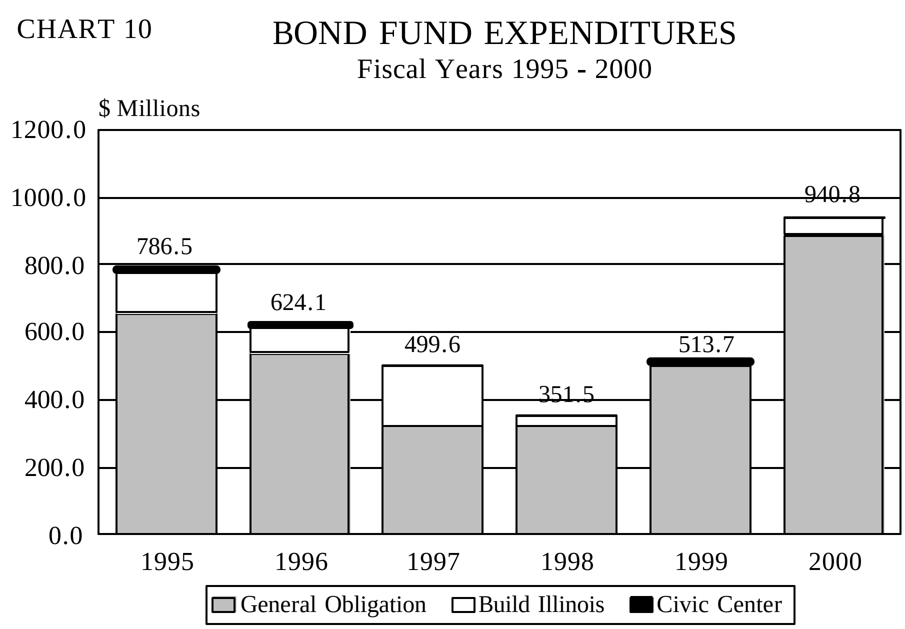
State-issued Revenue Bonds

Build Illinois. Appropriations from the Build Illinois Bond Fund total $691.6 million for FY 2001. Of this total, $452.4 million is re-appropriated from the prior year, while $239.2 million is new appropriations.

Civic Centers. The FY 2001 Civic Center Bond Fund appropriations include $51.1 million in new appropriations. Another $0.178 million appropriation consists of re-appropriations.

EXPENDITURES OF BOND FUNDS

Bonds issued for many of the State-supported bond programs are primarily used to fund a specific project and, therefore, spending occurs over a short period of time. However, the general obligation, Build Illinois, and civic center programs finance a variety of projects over several years. Chart 10 shows annual expenditures from these funds for projects and bond sale expenses, but does not include other amounts paid out of these funds due to refunding bond sales, short-term borrowing, or debt service payments.



For FY 00, actuals as of 6/30/00 as of 6/30/00; expenditures are for projects and bond sale expenses only and do not include debt service payments.

General Obligation Bonds

Spending from the general obligation bond funds in FY 2000 increased in most categories from FY 1999. During FY 2000, spending from these funds was $888.1 million, compared to $501.5 million in FY 1999. The increase was driven largely by growth in expenditures from the School Construction Fund (up $179.7 million) and the Capital Development Fund (up $139.4 million). The Transportation A Fund, which had no expenditures in FY 1999, spent $67 million in FY 2000. The Transportation B Fund increased by $16.8 million while the Coal Development Fund increased by $3.5 million. The only decrease was seen in the Anti-Pollution Fund, down $19.7 million.

State-Issued Revenue Bonds

Build Illinois. Build Illinois Bond Fund expenditures increased in FY 2000. The $52.7 million expenditures made in FY 2000 reflect a $40.5 million increase from the previous year.

Civic Centers. There was no Civic Center spending in FY 2000.

BOND RATING

A state's bonds are rated by financial service agencies to provide a current grade of the state's creditworthiness, that is, its ability to meet its financial commitments. Specifically, a bond rating ranks a state's expected ability to make a full and timely payment of the principal and interest on the specific bonds issued. The major ratings agencies, including Moody's, Standard & Poor's and Fitch, each use their own specific standards and rating scales to develop a state's bond rating. They base their state ratings on four main factors (information supplied by Standard & Poor's):

- **Economic factors** (especially as they affect the issuer's tax base)—per capita income levels, composition of the employment sector, concentration or reliance on particular industries (manufacturing, farm and service sectors), employer commitment to the community, employment trends, quality of the local labor force, employment and income growth, ability of the bond issuer to promote economic activity, and size-structure-diversity of the tax base. Generally those communities with higher income levels and diverse economic bases have superior debt repayment capabilities. They are better protected from sudden economic shocks or unexpected volatility than other communities. Many communities have sought to replace lost manufacturing jobs with services sector employment. These lower-paying jobs may be of limited benefit.

- **Governmental factors**—the structure of the government, labor environment, litigation susceptibility and insurance coverage, and the management ability of the issuer. The structure would include political factors, the scope and power of the administration and those services for which the issuer is responsible. The management ability is viewed as the ability to make timely and sound financial decisions in response to economic and fiscal demands. This can be dependent on the tenure of government officials and frequency of elections. The background and experience of key members of the administration are important considerations if they affect policy continuity and ability to reformulate plans. Adherence to long-range financial plans is considered a reflection of good forecasting and planning. Well-documented capital improvement plans should include outlook for capital needs, flexibility to modify the program in difficult economic periods, and ability to finance investment through operating surpluses.

- **Debt factors**—the pledged sources of repayment, complexity of the repayment structure, outstanding debt levels, and debt burden measures. The analysis of debt focuses on the nature of the pledged security, current debt servicing burden, debt's term matching the useful economic life of the financed project, and future capital needs of the issuer. Investment in public infrastructure is believed to enhance the growth prospects of the private sector. Neglecting critical capital needs may impede economic growth and endanger future tax revenue generation. General obligation bonds are considered self-supporting when the enterprise can pay debt service and operating expenses from its own operating revenues. Such a self-supporting enterprise could use the full faith and credit support of government without diminishing the credit quality of the government's general obligation debt.

- **Financial factors**—the current financial position and fund balances of the issuer, a comparison of estimated versus actual revenues, outstanding obligations of the issuer (particularly pension liabilities), accounting and reporting methods, revenue and expenditure structure and patterns, annual operating and budget performance, financial leverage and equity position, contingency financial obligations (such as pension liability funding), composition and stability of revenue streams and expenditures, and the identification of trends. These factors are used to find the financial strengths and weaknesses of an issuer. Diverse revenue sources are preferable and the ability to tax nonresidential commercial activity.

A state's bond rating has an important impact on its ability to issue debt. A higher bond rating, reflecting a lower risk to investors can allow a state to issue bonds at a lower interest rate, therefore, at a lower long-term cost to the state. Conversely, a lower bond rating, reflecting a higher risk to investors will force a state to issue bonds at a higher interest rate, therefore, at a higher long-term cost to the state. Bond ratings are used by a participant in the bond market—bondholders, traders and financial managers—to weigh the relative risks assumed against the yield offered in each series of bonds issued.

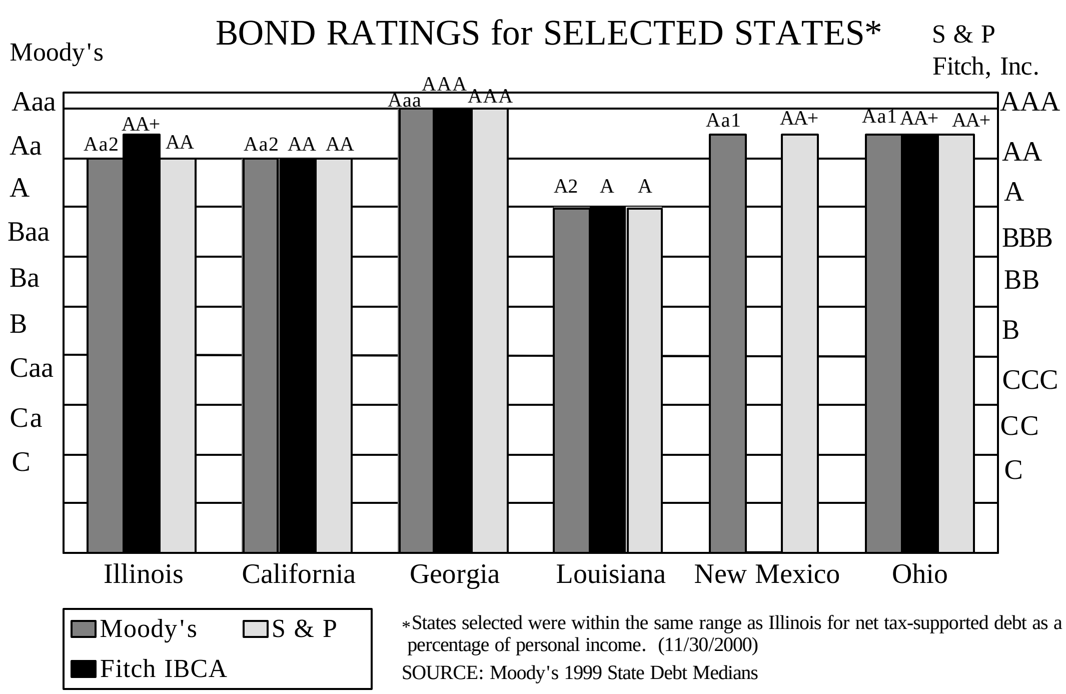
History of Illinois Credit Rating: In August of 1992, Standard & Poor's and Moody's decreased their Illinois bond ratings due to the State's weak financial operations, liquidity position and budget weakness. In July of 1997, the State's bond rating was upgraded by Standard & Poor's, from AA- to AA, recognizing the State's improved finances. In June of 1998, Illinois' general obligation bonds and Build Illinois bonds were upgraded by Moody's Investor Service, from Aa3 to Aa2. Moody's cited the State's aggressive efforts to pay a backlog of unpaid bills, its recent spending restraint and steady revenue growth, and tight fiscal management as reasons for the upgrade.

In June of 2000, Fitch, Inc., which has long maintained an AA rating on the State's general obligation bonds, upgraded the State's bond rating from AA to AA+ citing the return of "fiscal stability, the larger balances carried by the state in recent years and the creation of a reserve account" in this legislative session. Fitch also stated that "the planned bonding is well within the state's capacity; if authorized but unissued bonds, including Build Illinois, are added to outstanding debt, the total would equal about 4.3% of personal income, a moderate level". Standard & Poor's affirmed its AA rating but revised its outlook upward on the state's credit from stable to positive, citing "a deep and diversified economy, an improving financial condition, moderate debt levels," and State cash balances that were $1.351 billion at the end of Fiscal Year 1999(the highest in the State's history).

ILLINOIS				Maximum
Rating Agencies	July 1997	June 1998	June 2000	Rating Possible
Fitch, Inc.	AA	AA	AA +	AAA
Standard & Poor's	AA	AA	AA	AAA
Moody's Investor Service	Aa3	Aa2	Aa2	Aaa (quality) or Aa1 (credit)

Chart 11 compares the bond ratings of states comparable to Illinois in net tax-supported debt as a percentage of personal income (Source: Moody's 1999 State Debt Medians).

Chart 11



*States selected were within the same range as Illinois for net tax-supported debt as a percentage of personal income. (11/30/2000)
SOURCE: Moody's 1999 State Debt Medians

SUMMARY OF NON-STATE SUPPORTED BOND DEBT

Non-State-supported debt can be broken down into two categories based on the degree of State obligation: "moral obligation" and "no obligation". In the event of default on moral obligation bonds - although the State is not legally obligated - the Governor must notify the General Assembly of any such shortfall and may include the amount in his budget for possible action by the legislature. No obligation bonds, secured solely by project revenue, have no direct State obligation.

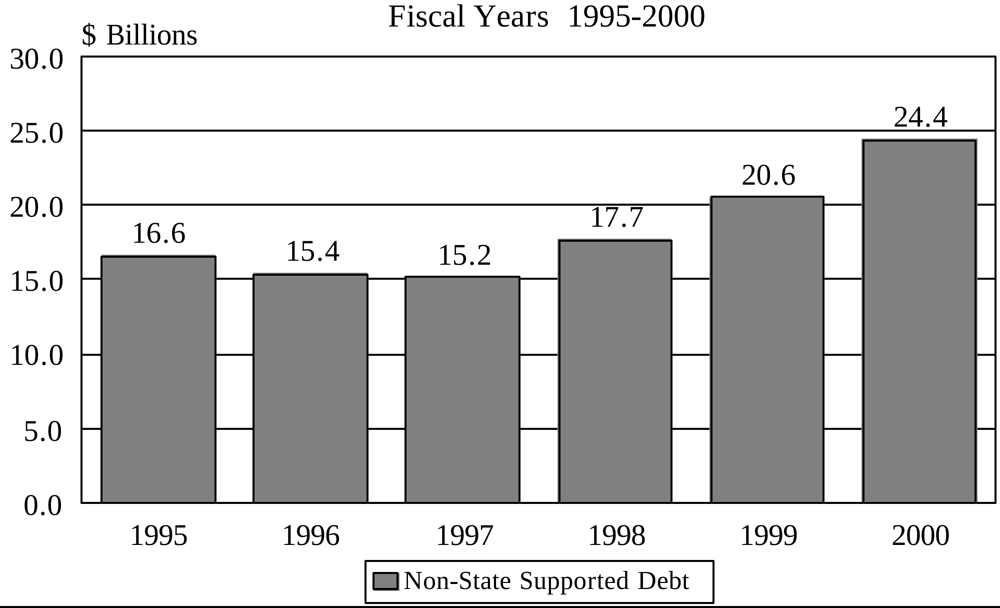
In FY 2000, the General Assembly passed Public Act 91-0681, a law increasing the Illinois Development Finance Authority's bonding authorization for infrastructure bonds by $1 billion and for all other bonds by an additional $1 billion. The legislature also passed Public Act 91-0611 which increased the amount of outstanding state guarantees under the Illinois Farm Development Authority from $50 million to $75 million.

Chart 12 shows the level of outstanding debt for non-state supported bonds as reported by the issuing authorities. The level of non-supported debt has increased since FY 1997. For a more detailed breakout of non-state supported bond outstanding by each bonding authority, please refer to Table 6.

CHART 12

NON-STATE SUPPORTED BONDS OUTSTANDING

Fiscal Years 1995-2000



Non-State supported debt includes:

- "User charge" supported debt which is paid for by charges to the user of the service or the constructed building, road, etc. This type of debt is issued by such authorities as the Illinois Student Assistance Commission (ISAC), the Illinois Housing Development Authority, State universities, and the Illinois State Toll Highway Authority;
- "Conduit debt" is backed by revenues from the project the bonds are sold for or by the local entity benefiting from the project. This debt is issued by such authorities as the Illinois Development Finance Authority, Illinois Educational Facilities Authority and the Illinois Health Facilities Authority; and
- "Moral obligation debt" is that which the State pledges to back in case the issuing authority has insufficient funds to pay the debt. Bonding authorities issuing moral obligation debt must first receive approval from the Governor before each issue. The moral obligation is not legally binding on the State and the General Assembly has discretion on whether the debt will be paid out of State funds. The Illinois Rural Bond Bank issues moral obligation debt.

As the level of non-state supported debt has increased, the level of bond sales for projects for the past fiscal years has remained steady (Chart 13). Total issues of non-state supported bonds increased to $2.769 billion in FY 2000, up 5.4% from the FY 1999 level of $2.628 billion. New debt issues increased $0.352 billion, or 18.2% from the FY 1999 level of $1.934 billion to $2.286 billion in FY 2000. Refunding issues decreased to $0.483 billion in FY 2000, a decrease of $0.211 billion, or 30.4%, from the FY 1999 level of $0.694 billion.

CHART 13 NON-STATE SUPPORTED BOND ISSUES
Fiscal Years 1995-2000

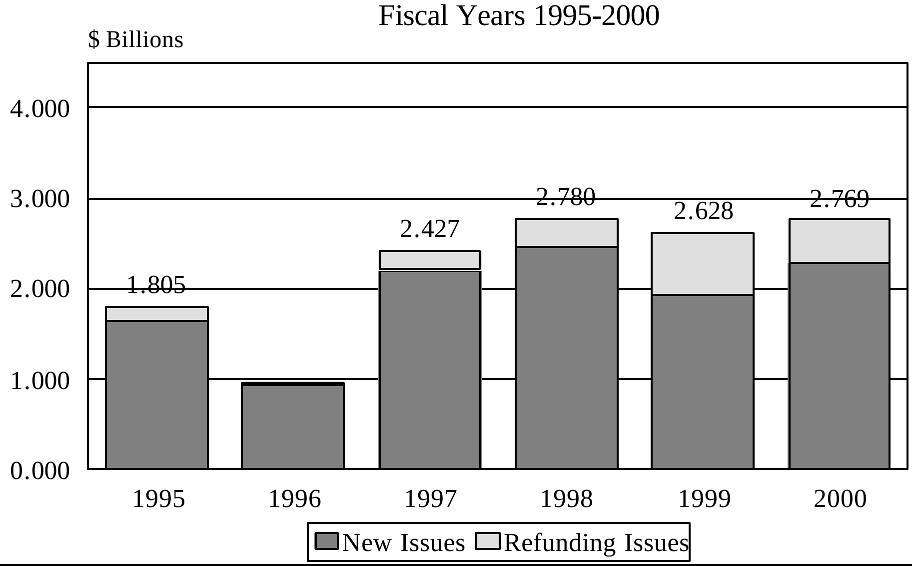


TABLE 6: NON-STATE SUPPORTED DEBT Bonding Authority ($ in Millions)		
	Kind of Debt	*FY 2000 Bonds Outstanding*
IL Housing Development Authority (IHDA)	User charge	2,071.0
IL Student Assistance Commission (ISAC)	User Charge	1,562.5
Quad Cities Regional Economic Devlpt. Authority (QCREDA)	Moral Obligation	15.2
Rural Bond Bank	Moral Obligation and Conduit	95.1
Southwest IL Devlpt. Authority (SWIDA)	Moral Obligation and Conduit	262.7
State Universities	User Charge	1,067.9
Upper IL River Valley Devlpt. Authority	Moral Obligation and Conduit	25.3
Will-Kankakee Regional Devlpt. Authority	Conduit	24.9
IL Devlpt. Finance Authority (IDFA)	Conduit	6,750.8
IL Education Facilities Authority (IEFA)	Conduit	2,206.1
IL Farm Devlpt. Authority (IFDA)	Conduit	88.5
IL Health Facilities Authority (IHFA)	Conduit	9,336.2
IL State Toll Highway Authority	User Charge	854.9
State Universities Retirement System (SURS)	User Charge	10.0
TOTAL, NON-STATE SUPPORTED DEBT		**$24,371.1**
Some totals may not equal due to rounding		

BACKGROUND

The Illinois Economic and Fiscal Commission, a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

1) Preparation of annual revenue estimates with periodic updates;

2) Analysis of the fiscal impact of revenue bills;

3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;

4) Periodic assessment of capital facility plans; and

5) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes two primary reports. The "Revenue Estimate and Economic Outlook" describes and projects economic conditions and their impact on State revenues. "The Illinois Bond Watcher" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The Commission also periodically publishes special topic reports that have or could have an impact on the economic well being of Illinois.

These reports are available from:

Illinois Economic and Fiscal Commission
703 Stratton Office Building
Springfield, Illinois 62706
(217) 782-5320
(217) 782-3513 (FAX)

Reports can also be accessed from our Webpage:

http://www.legis.state.il.us/commission/ecfisc/ecfisc_home.html