ILLINOIS ECONOMIC
AND
FISCAL COMMISSION

2001
ILLINOIS BOND WATCHER

November 2001
Room 703 Stratton Office Building
Springfield, Illinois 62706

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and
FISCAL COMMISSION

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November 2001 Illinois Bond Watcher

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State of Illinois
ECONOMIC AND FISCAL COMMISSION

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 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 using information provided by the Bureau of the Budget and the Office of the Comptroller. In an ongoing attempt to provide clear concise information, please note the table entitled Bonds at a Glance. Shown on page ii, it provides a quick reference for frequently 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.

2001 BOND WATCHER
EXECUTIVE SUMMARY

- The **total of all State-supported bonds sold,** excluding refunding, during FY 2001 was $1.390 billion, which is 8.1% lower than the $1.513 billion sold during FY 2000. Total State-supported bond sales for FY 2002 are estimated at $3.059 billion, including the bond sales for the Soldier Field renovation and McCormick Place expansion.

- **Total general obligation bond sales** increased to $1.165 billion in FY 2001 from $860.0 million in FY 2000. General obligation bond sales for new projects grew by $305.1 million, 35.5%, while refunding sales increased to $288.3 million.

- **Total general obligation debt outstanding** will equal approximately $7.631 billion, a 15.6% increase from the FY 2001 level of $6.600 billion.

- **General obligation debt service** increased by 10.2% in FY 2001 to $790.5 million. In FY 2002, debt service is expected to grow 8.0% to $853.8 million.

- The overall **ratio of debt service to general funds revenues** is estimated to increase from 4.02% in FY 2001 to 4.24% in FY 2002.

- The **general obligation bond authorization** increased $1.067 billion during FY 2001. The increase occurred in new project funding from $14.198 billion to $15.265 billion. Refunding authorization remained at $2.839 billion, for a total general obligation authorization of $18.105 billion.

- The FY 2002 **general obligation bond appropriations** are up $582.6 million, to $5.066 billion, representing a 13.0% increase over the FY 2001 level of $4.484 billion.

- In 1998, Illinois had the 15th highest **per capita debt outstanding**, with $2,097 per person, compared to the national average of $1,791 per capita.

- The **State's bond ratings** have held firm at AA with a positive outlook from Standard & Poor's, Aa2 from Moody's Investor Service, and AA+, from Fitch Inc.

- Fitch Inc. rates **Illinois' debt as moderate** at 4.0% based on debt per capita, debt to personal income, and direct debt service as a percentage of revenues.

ILLINOIS BONDS AT A GLANCE

($ in Millions)

	FY 2000	FY 2001	From Previous Year $ Chg.	From Previous Year % Chg.	Estimated 2002	From Previous Year $ Chg.	From Previous Year % Chg.
Bond Sales*							
General Obligation	$860.0	$1,165.1	305.1	35.5%	$1,500.0	334.9	28.7%
Revenue	125.0	125.0	0.0	0.0%	200.0	75.0	60.0%
Locally-issued †	527.7	100.0	-427.7	-81.0	1,359.0	1,259.0	1,259.0%
TOTAL	**$1,512.7**	**$1,390.1**	**-122.6**	**-8.1%**	**$3,059.0**	**1,668.9**	**120.1%**
Outstanding Debt							
General Obligation	$5,885.8	$6,600.0	714.2	12.1%	$7,630.5	1,030.5	15.6%
Revenue	1,798.0	1,844.2	46.2	2.6%	1,961.7	117.5	6.4%
Locally-issued	2,628.9	2,915.7	286.8	10.9%	4,273.0	1,357.3	46.6%
TOTAL	**$10,312.7**	**$11,359.9**	**599.0**	**5.6%**	**$13,865.2**	**2,505.3**	**22.1%**
Debt Service							
General Obligation	$717.1	$790.5	73.4	10.2%	$853.8	63.3	8.0%
Revenue	173.3	178.9	5.6	3.2%	187.6	8.7	4.9%
Locally-issued	176.5	188.0	11.5	6.5%	280.4	92.4	49.1%
TOTAL	**$1,066.9**	**$1,157.4**	**107.3**	**10.2%**	**$1,321.8**	**164.4**	**14.2%**
General Revenues	**$23,250.0**	**$24,106.0**	**856.0**	**3.7%**	**$24,526.0**	**420.0**	**1.7%**
G.O. & Revenue Debt Service as % General Revenues	**3.83%**	**4.02%**			**4.24%**		
G.O. Bond Rating							
Moody's		Aa2					
Standard & Poor's		AA	positive	outlook			
Fitch, Inc.		AA+					

*does not include refunding sales

† includes RTA SCIPs; ISFA bonds issued for the Soldier Field renovation, and the potential authorization of MPEA expansion bonds

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 and Navy Pier), the City of Collinsville (State Office Building), the Springfield Airport Authority, the Illinois Sports Facilities Authority (Comiskey Park and Soldier Field), and the Regional Transportation Authority.

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 2002 are projections by the Illinois Economic and Fiscal Commission based on the Bureau of the Budget's estimate of FY 2002 bond sales.

Illinois FIRST

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 bonds are expected to be sold over seven years to meet construction schedules beginning in FY 2000.

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 91-0039 increased the bond authorization for general obligation and Build Illinois. Public Act 91-0037 increased the authority of the Regional Transportation Authority's (RTA) state-supported Strategic Capital Improvement Projects (SCIP) bonds by $1.3 billion. The additional bonding authority is available in increments of $260.0 million annually every calendar year from 2000 through 2004. If the full $260.0 million is not issued within the calendar year it is authorized, the remaining amount is still available for future issuance.

Public Act 91-0038 raised the State's liquor tax, while Public Act 91-0037 increased motor vehicle registration and title fees among 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.

In FY 2001, general obligation authorization was increased by $1.067 billion (excluding refunding) to a total of $15.265 billion. Of this amount, $500.0 million was directed for the purpose of financial assistance to new electric generating facilities to encourage the construction of new energy generation plants (coal-fired or gas derived from coal-fired). Authorization also was increased for the Build Illinois program in FY 2001 by $688.7 million, for a total authorization of $3.541 billion (there is no authorization limit set for Build Illinois refunding bonds).

To date, $3.496 billion has been appropriated for Illinois FIRST programs. Of that amount, $2.052 billion has been obligated in contracts for Illinois FIRST projects. Following is a list of appropriations and obligations for specific categories (Source: Bureau of the Budget).

Funds Appropriated and Obligated for IL FIRST as of 10/26/01

(in Millions)	Appropriated	Obligated
Transportation A-Highways	$1,050	$670
Transportation B-Aviation	$98	$24
Transportation B-Rail	$60	$40
Transportation B-Mass Transit Statewide	$348	$223
School Construction Bonds	$930	$506
Pay-As-You-Go School Infrastructure	$125	$111
Fund for IL's Future (BI-Other)	$500	$170
Pay-As-You-Go Fund for IL's Future	$260	$260
Anti-pollution Bonds-Waste Water	$49	$15
Anti-pollution Bonds-Drinking Water	$19	$6
Build IL-Lake Michigan	$21	$5
Build IL-Brownfields	$36	$22
TOTAL	**$3,496**	**$2,052**

Illinois Sports Facilities Authority- Soldier Field Renovation

In November 2000, the General Assembly passed Public Act 91-0935 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 increased bonding authorization by $399.0 million. The total cost of the project would be $587.0 million with $200.0 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.

The ISFA bond issue, sold in October 2001, was restructured in consultation with the City of Chicago following the events of September 11th. Finance team members worked out a compromise structurally changing the deal to allow for potential decreases in city hotel taxes of 40.0% in FY 2002 and 12.0% in FY 2003, at the expense of increasing borrowing costs. "The ISFA was able to re-price the transaction twice on its Oct. 3 pricing date. The deal was loaded with premium bonds that typically offer higher interest rates, but heavy investor interest allowed the Authority to reduce the yields" from the original scale proposed (The Bond Buyer, 10/10/01).

Metropolitan Pier and Exposition Authority-McCormick Place Expansion

In the 92nd General Assembly, the legislature approved an $800.0 million dollar expansion of McCormick Place, increasing bond authorization to $2.107 billion, and lengthened the maximum maturity for these bonds from 30 to 40 years. The bonds to be issued will not use additional taxes, but the law increases the amounts and length of time that McCormick Place receives revenues from the Chicago-based taxes it currently receives. The legislature also diverted the $4.8 million Cigarette Tax from McCormick place to a newly-created fund named the Statewide Economic Development Fund, to be used for the development of downstate projects. To replace the Cigarette Tax revenue, a grant of $5.0 million will be given each year for 7 years from the Department of Commerce and Community Affairs to the related MPEA fund. The MPEA may sell these bonds in the latter half of FY 2002.

Due to the September 11th terrorist attacks, Congress and the IRS are looking at whether to relax the tax-exempt debt refunding rules for tourism-related industries. Governmental bond issuers are allowed one tax-exempt "advance refunding" (refunding before the call date) of bond debt, while businesses are allowed none. A coalition of eight state and local government groups, including the Government Finance Officers Association, the National League of Cities, and the U.S. Conference of Mayors have asked Congress to take action on this topic. One action requested was to allow airports with outstanding tax-exempt debt, whether government or privately supported, to advance refund their debt while interest rates are low (The Bond Buyer, 10/10/01). If Congress and the IRS allow different tourism-related businesses to advance refund their debt, the MPEA will most likely refund $300.0-500.0 million, according to an official at the MPEA.

BOND SALES

The following table provides information on general obligation and State-issued 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
11/03/99	$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**				
08/30/00	$300.0	General Obligation	5.32%	Negotiated	Project Funding
09/19/00	50.3	Civic Center	5.02%	Negotiated	Refunding
10/19/00	101.9	General Obligation	5.22%	Negotiated	Project Funding
12/19/00	300.0	General Obligation	5.28%	Negotiated	Project Funding
03/20/01	125.2	Build Illinois	4.73%	Negotiated	Refunding
04/24/01	276.0	General Obligation	4.64%	Negotiated	Proj. Fund. (163.2) Refunding (112.8)
05/17/01	300.0	General Obligation	5.06%	Negotiated	Project Funding
06/12/01	125.0	Build Illinois	4.99%	Negotiated	Project Funding
Total FY'01	**$1,578.4**				

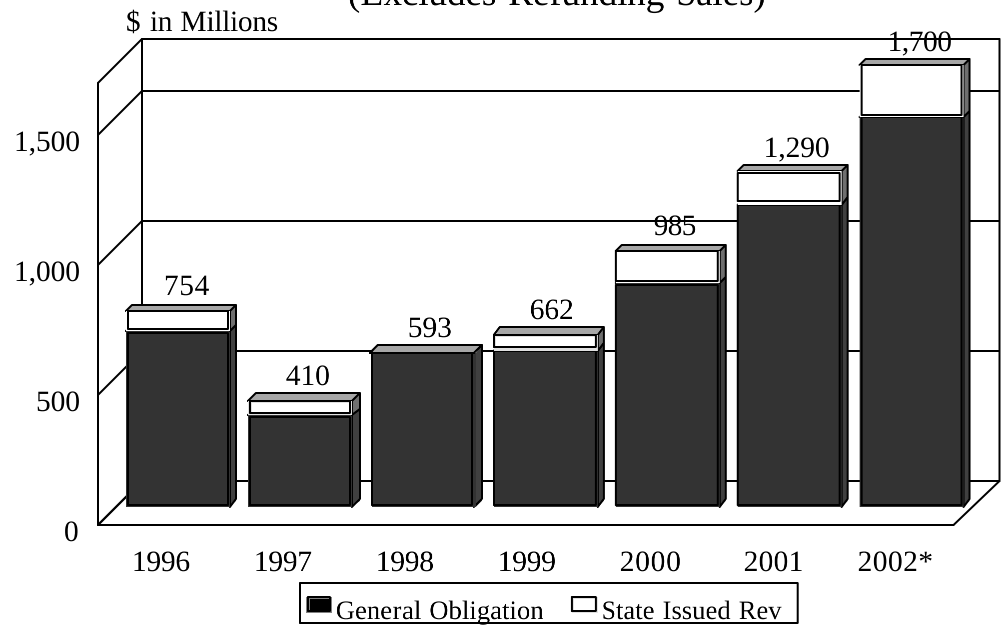
As Table 1 shows, bonds totaling $985.0 million were sold during FY 2000, all of which were for project funding. Of this amount the State sold $860.0 million of general obligation bonds, and $125.0 million in revenue bonds for Build Illinois project funding.

The total amount of bond sales during FY 2001 represents a 60.2% increase from the FY 2000 level. Eight bond issues were sold totaling $1.578 billion during FY 2001. The bond sales included five general obligation issues totaling $1.278 billion, two Build Illinois sales of $250.2 million, and one Civic Center issue of $50.3 million. Table 2 illustrates the changes in bond sales by purpose from FY 2000 to FY 2001. The $288.3 million dollars in refunding bonds is broken down to $112.8 million for general obligation, $125.2 million for Build Illinois, and $50.3 million for Civic Center bonds.

TABLE 2: TOTAL BOND SALES BY PURPOSE ($ in Millions)				
	FY 2000	FY 2001	$ Change	$ Change
Projects	$985.0	$1,290.1	$305.1	31.0%
Refunding	0.0	288.3	288.3	100.0%
TOTAL	**$985.0**	**$1,578.4**	**$593.4**	**60.2%**

Bonds sold to fund project expenditures are shown in Chart 1 and are further described according to the type of State support.

CHART 1 STATE-SUPPORTED BOND SALES
(Excludes Refunding Sales)



* BOB Estimate

General Obligation Bonds

Chart 1 shows the level of general obligation bond and State-issued revenue bond sales for new money projects for the past six fiscal years, along with an estimate of the level for FY 2002. In FY 2001, the State sold $1.165 billion in general obligation bonds and $125.0 million in State-issued revenue bonds.

Table 3 breaks down general obligation sales for FY 2000 and FY 2001 by purpose. In FY 2001, total general obligation bond sales, excluding refunding sales, increased $305.1 million to $1.165 billion. Refunding bonds sold in FY 2001 equaled $112.8 million.

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

	FY 2000	FY 2001	$ Change	$ Change
Projects	$860.0	$1,165.1	$305.1	35.5%
Refunding	0.0	112.8	112.8	100.0%
TOTAL	**$860.0**	**$1,277.9**	**$417.9**	**48.6%**

The Bureau of the Budget estimate for FY 2002 indicates an increase in the sale of general obligation bonds for projects. The projected $1.500 billion in bond sales for FY 2002 would represent a $334.9 million, or 28.7%, increase over FY 2001 sales of $1.165 billion. In August $375.0 million in general obligation new projects bonds were sold and another $375.0 million were sold in November. The Bureau of the Budget closed a $318.8 million refunding issue in early December 2001.

Illinois FIRST. Most of the increase in general obligation bond sales in FY 2001 were 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 in 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.)

School Construction. The School Construction Program is a grant program to help school districts fund building projects due to overpopulation or deteriorating buildings. School districts must provide an application to the State Board of Education and be approved, then pass a referendum on how to fund the local share-matching contribution of the project. When these requirements are met, the Capital Development Board awards schools a State grant from bond sale appropriations. Of the $1.165 billion in new project funding of General obligation Bond Sales for FY 2001, $340.0 million was sold for School Construction grants. School Construction grant applications equaled 166 in FY 2001, of which 148 were awarded.

State-Issued Revenue Bonds

As Chart 1 on the preceding page indicates, State-issued new money revenue bond sales for FY 2000 and 2001 were both $125.0 million. It is estimated that in FY 2002, that figure will increase to $200.0 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 for the past three years increased as shown on the following page:

YEAR	PUBLIC ACT	INCREASE
1999	91-0039	$754 Million
2000	91-0709	61.0 Million
2001	92-0009	688.7 million

As it stands today, total Build Illinois bond authorization is $3.541 billion with $2.237 billion having been used, leaving $1.304 billion in remaining authorization for projects. According to the Bureau of the Budget, some projects from the original Build Illinois program still exist. These projects have funds appropriated to them but have not been spent due mostly to circumstances where local entities have not found matching funds. The total amount of these unused funds is between $50.0-$100.0 million. There is no refunding limit placed on Build Illinois bonds.

In FY 2001 new money bonds sales for Build Illinois were $125.0 million, and refunding bond sales were $125.2 million. The Bureau of the Budget estimates $200.0 million of new money bond sales for Build Illinois in FY 2002. Table 4 compares all Build Illinois bond sales by purpose for FY 2000 and FY 2001. In September 2001, $110.5 million in Build Illinois bonds were sold for refunding purposes.

TABLE 4: BUILD IL BOND SALES BY PURPOSE
($ in Millions)

	FY 2000	FY 2001	$ Change	$ Change
Projects	$125.0	$125.0	$0.0	0.0%
Refunding	0.0	125.2	125.2	100.0%
TOTAL	**$125.0**	**$250.2**	**$125.2**	**100.2%**

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 FY 2001, with no new money Civic Center bonds anticipated for FY 2002.

Locally-Issued Revenue Bonds

Illinois Sports Facilities Authority. The November 2000 General Assembly passed an increase in authorization of $399.0 million for the Illinois Sports Facilities Authority. In October of 2001 the ISFA sold the $399.0 million in new bonds, insured rating of AAA/AAA, for the renovation of Soldier Field and related lakefront property. This is the only projected bond sale for FY 2002.

Metropolitan Pier and Exposition Authority. The Metropolitan Pier and Exposition Authority has two types of bonds:

- Dedicated state tax revenue bonds--debt service is paid from taxes that flow through the Build Illinois fund. These bonds have been refunded and have a total principal outstanding of $287.3 million; and
- Expansion Project Bonds—debt service is paid by Chicago-related taxes administered by the MPEA.

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 $267.7 million in new project funding and $176.0 million in refunding bonds. No FY 2001 bonds were issued.

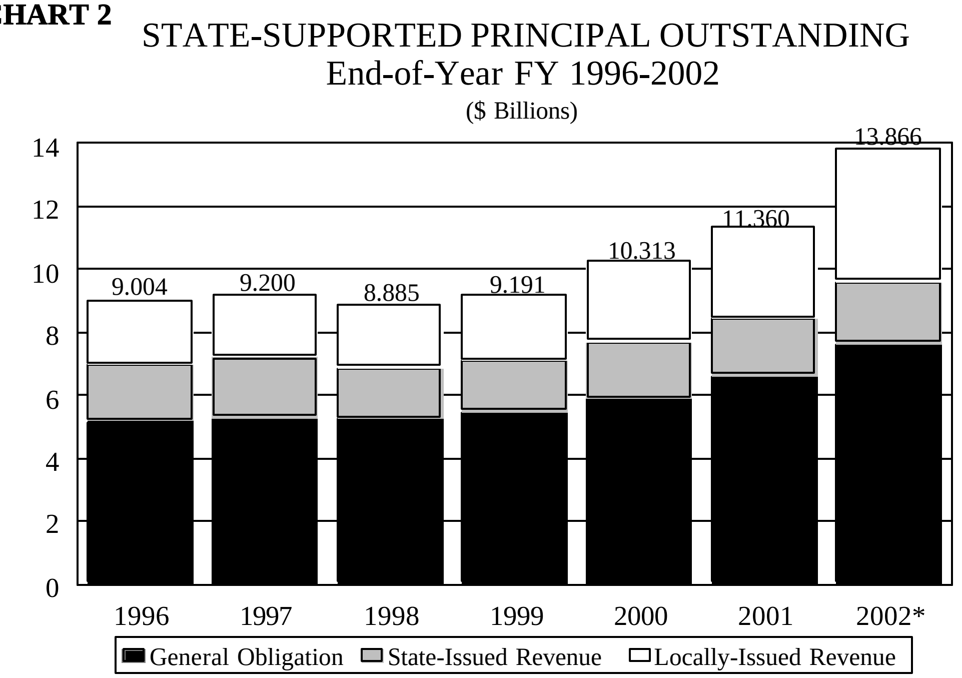
In the spring 2001 session, legislators again increased the MPEA's bonding authorization. The $800.0 million in new expansion bond money for McCormick Place most likely will be sold in the latter half of FY 2002. The MPEA would also refund between $300.0-$500.0 million in bonds if advance refunding rules for tourism-related industries are relaxed in the wake of the September 11th terrorist attacks.

Regional Transportation Authority. The Regional Transportation Authority has State-supported bonds called Strategic Capital Improvement Project (SCIP) bonds. In FY 2000, the RTA sold $260.0 million in SCIPs, and $100.0 million in FY 2001. The Authority expects to issue $160 million in SCIP bonds in FY 2002.

OUTSTANDING DEBT

As shown in Chart 2, State-supported principal continues to rise with the continuing Illinois FIRST program, the renovation of Soldier Field by the Illinois Sports Facilities Authority, and the latest McCormick Place expansion bonds.

CHART 2



* IEFC Estimate

Chart 2 indicates that at the end of FY 1996, State-supported principal outstanding totaled $9.004 billion. By the end of FY 2001, this level increased to $11.360 billion. Total outstanding State-supported principal for FY 2002 is estimated to be $13.866 billion, a 22.1% increase over the FY 2001 level.

General Obligation Bonds

As Chart 2 demonstrates, the level of outstanding general obligation principal has been growing steadily. At the end of FY 1996, the State had $5.160 billion of outstanding general obligation principal. This level increased to $6.600 billion at the end of FY 2001. This represents a $1.440 billion increase from FY 1996 to FY 2001, averaging $288.0 million per year. For FY 2002, outstanding principal is expected to increase by $1.031 billion to $7.631 billion. The increased bond principal outstanding in FY 2001 and FY 2002 can be explained by higher levels of new money general obligation bond sales mostly for Illinois FIRST programs.

State-Issued Revenue Bonds

As opposed to general obligation principal outstanding increasing almost every year from FY 1996 to FY 2001, State-issued revenue principal outstanding increased from FY 1996 to FY 1997, from $1.818 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 2001, State-issued revenue principal outstanding grew from $1.589 billion to $1.844 billion. Based on the Bureau of the Budget's estimate for FY 2002, Build Illinois bond sales will increase the total level of State-issued revenue bonds outstanding to approximately $1.962 billion by the end of FY 2002.

Locally-Issued Revenue Bonds

Principal outstanding for locally-issued revenue bonds saw growth in FY 2000 from $2.086 billion to $2.629 billion due to a McCormick Place expansion bond sale of $443.7 million and a Regional Transportation Authority sale of $260.0 million. In FY 2001, the amount of principal outstanding increased to $2.916 billion due to another McCormick Place expansion bond sale of $267.7 million and a RTA sale of $100.0 million. The principal outstanding for FY 2002 is expected to reach $4.273 billion with the sale of Soldier Field renovation bonds of $399.0 million (October 2001), the potential sale of $800.0 million of McCormick Place expansion bonds (Spring/Summer 2002), and another $160.0 million of RTA SCIPs.

DEBT SERVICE

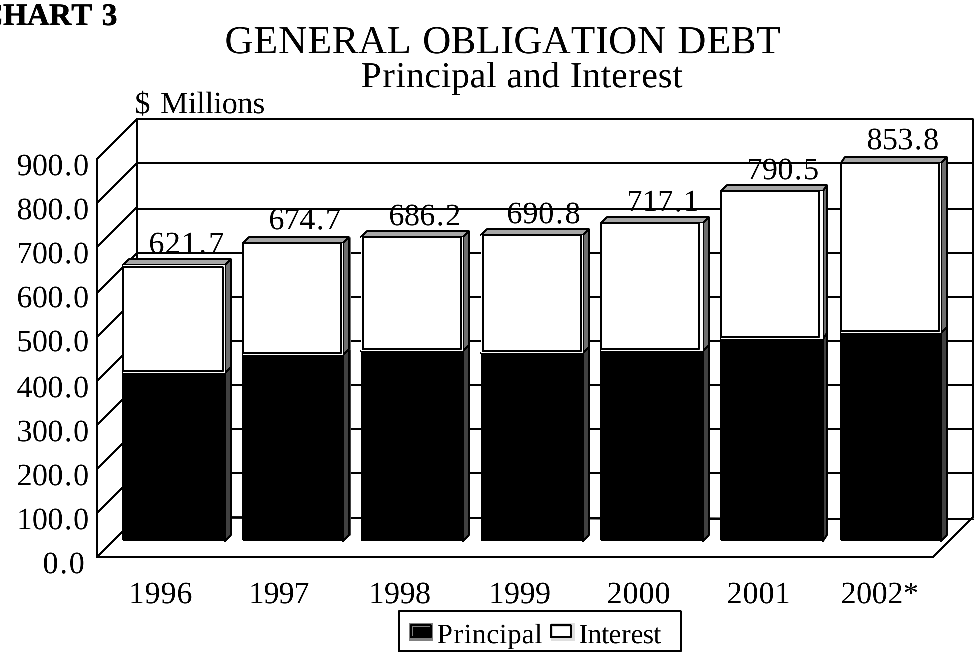
As the level of outstanding debt grows, the amount of principal and interest payments, or debt service, increases as well. The following section looks at the required debt service levels for the various types of State-supported debt.

General Obligation

Chart 3 shows the amount of required general obligation debt service. G.O. debt service is paid from the General Obligation Bond Retirement and Interest Fund which receives transfers from the Road Fund (for Transportation A/highways), the School Infrastructure Fund, and the General Revenue Fund. In FY 2001, the Road Fund supported $198.3 million (25.1%) of G.O. debt service, while the School Infrastructure Fund supported $49.4 million (6.2%). It is estimated that the Road Fund will pay $197.4 million (23.1%) and the School Infrastructure Fund will support $77.5 million (9.1%) of the debt service payment for FY 2002.

FY 2001 principal of $453.9 million added to the $336.6 million in interest equaled a total debt service of $790.5 million. As Chart 3 indicates, the FY 2001 debt service of $790.5 million represented an increase of $73.4 million, or 10.2%, over the FY 2000 level of $717.1 million. The Bureau of the Budget estimates general obligation debt service to cost $853.8 million in FY 2002, an increase of $63.3 million, or 8.0%, over FY 2001. 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.

CHART 3

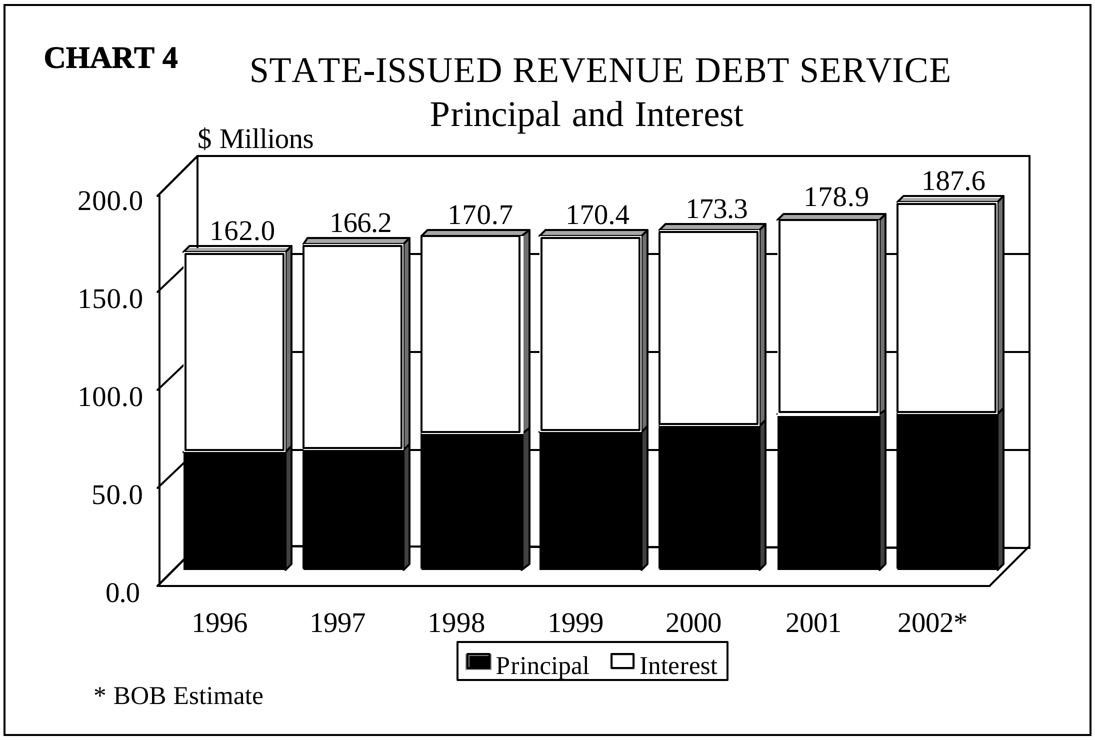


* BoB estimate

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 4.

As Chart 4 indicates, the $187.6 million of payments on principal and interest estimated in FY 2002 represent an increase of $8.7 million, or 4.9%, from the $178.9 million in FY 2001. The amount of principal to be paid in FY 2002 is estimated at $79.7 million, an increase of $0.8 million, or 0.9%, over the FY 2001 principal payments of $79.0 million. The amount of interest to be paid in FY 2002 is estimated to be $107.9 million, an increase of $7.9 million, or 7.9%, from the FY 2001 interest paid of $100.0 million.



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 $165.1 million in FY 2001, consisting of $73.0 million in principal and $92.1 million in interest. This amount is up 3.8% from a level of $159.0 million in FY 2000. The Bureau of the Budget estimates the FY 2002 level of principal and interest payment to be $173.7 million, which would represent a $8.6 million, or 5.2%, increase from FY 2001.

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 and FY 2001, total principal and interest payments were $14.3 million and $13.9 million, respectively. The FY 2001 debt service was comprised of $6.0 million in principal and $7.9 million in interest. FY 2002 payments are expected to be $13.8 million. Debt service payments will be approximately $13.8 to $13.9 million annually through FY 2016 due to the refunding and then increase to $14.4 million through FY 2020. There are no Civic Center bond sales anticipated for FY 2002.

BOND AUTHORIZATIONS

General Obligation Bonds

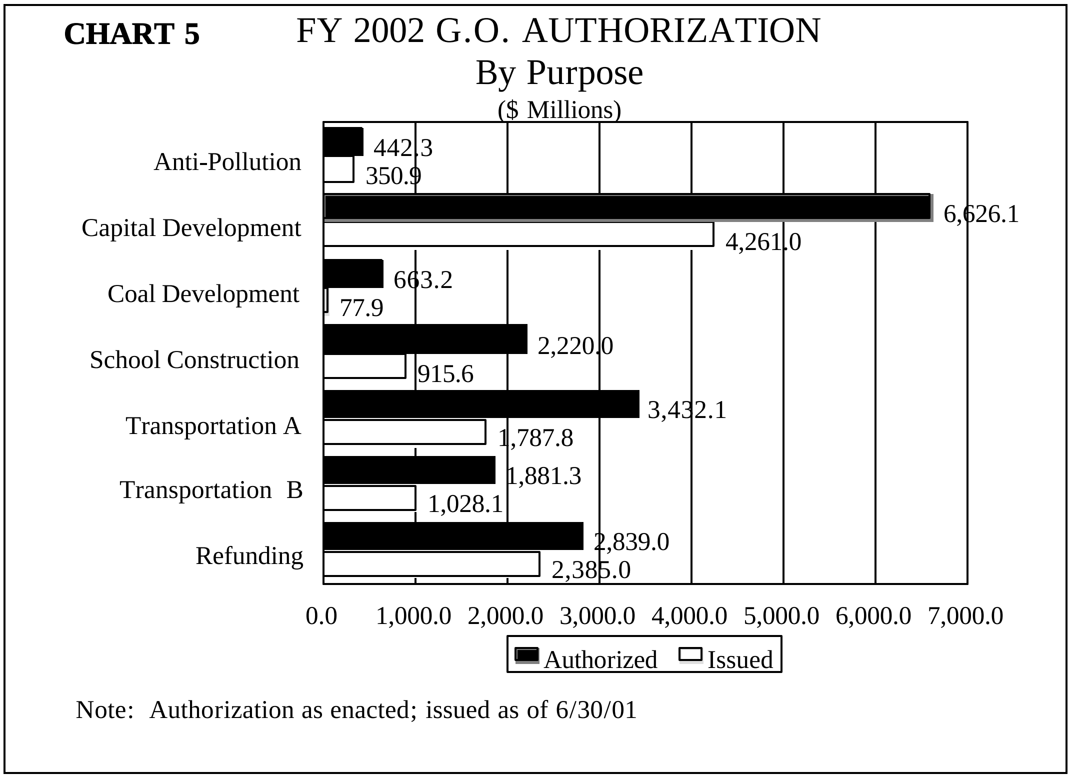
In May of 2000, the Governor approved Public Act 91-0710, which separated refunding from other bond authorizations and increased general obligation authorization overall by $858.8 million, for a total authorization of $17,036,657,592. In June of 2001, authorization for new projects was increased $1.067 billion by Public Act 92-0013. This increased the total General obligation Bond authorization to $18,104,034,501.

General Obligation Bond Authorization Levels		
	May 2000	June 2001
Project Funding	$14,197,632,592	$15,265,007,500
Refunding bonds	$ 2,839,025,000	$ 2,839,025,000
TOTAL	$17,036,657,592	$18,104,034,501

The Act distributes the increased authorization as follows:

- $547,245,900 for Capital Facilities;
- $1,129,000 for highways and bridges under the Transportation A category;
- $19,000,000 for Anti-Pollution; and,
- $500,000,000 in the Coal and Energy Development category for the purpose of providing financial assistance to new electric generating facilities as provided in Section 605-332 of the Department of Commerce and Community Affairs Law of the Civil Administration Code of Illinois.

Chart 5 breaks out authorization levels and amounts issued as of June 30, 2001, across bond fund categories.



State-Issued Revenue Bonds

In June 2001, Public Act 92-0009 increased the debt authorization of the Build Illinois program by $688.7 million, to $3,540,715,000. The Build Illinois program had $1.304 billion of available bond authorization at the end of FY 2001.

Locally-Issued Revenue Bonds

In November 2000, the General Assembly increased bonding authorization for the Illinois Sports Facilities Authority (ISFA) Act by $399.0 million to finance renovations for the Chicago Bears Stadium at Soldier Field and related lakefront improvements. The bonds were issued in October of 2001.

Public Act 92-0208, signed in August of 2001, increased authorization for the Metropolitan Pier and Exposition Authority by $800.0 million for another expansion of McCormick Place. Bonds are expected to be sold in late FY 2002.

The Regional Transportation Authority has an annual authorization of $260.0 million from FY 2000 to 2004.

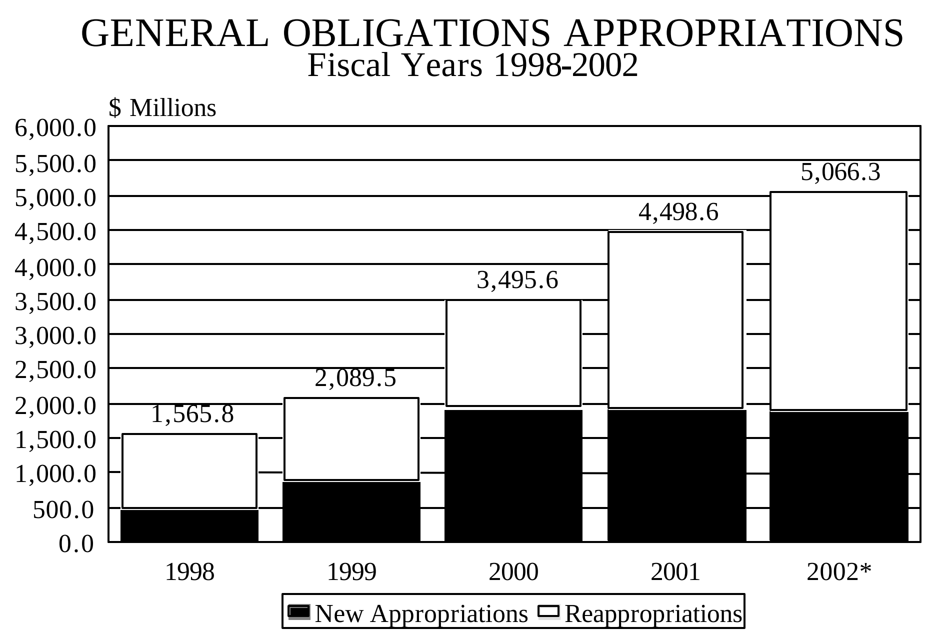
APPROPRIATIONS OF BOND FUNDS

General Obligation Bonds

The FY 2002 estimate of total general obligation appropriations is $5.066 billion, up $567.0 million from the FY 2001 level of $4.499 billion. This estimate consists of $3.191 billion in re-appropriations with $1.875 billion in new appropriations. The increase in re-appropriations is 23.4% over the FY 2001 level of $2.586 billion. The new appropriation request represents a 1.9% decrease from the FY 2001 level of $1.912 billion. These figures are presented in Chart 6, along with the corresponding levels going back to FY 1998.

The Bureau of the Budget has indicated that $1.500 billion in general obligation bonds will be issued for new projects in FY 2002, which is reflected in the increased appropriations for general obligation bond funds. Re-appropriations are 63.0% of all appropriations for FY 2002.

CHART 6

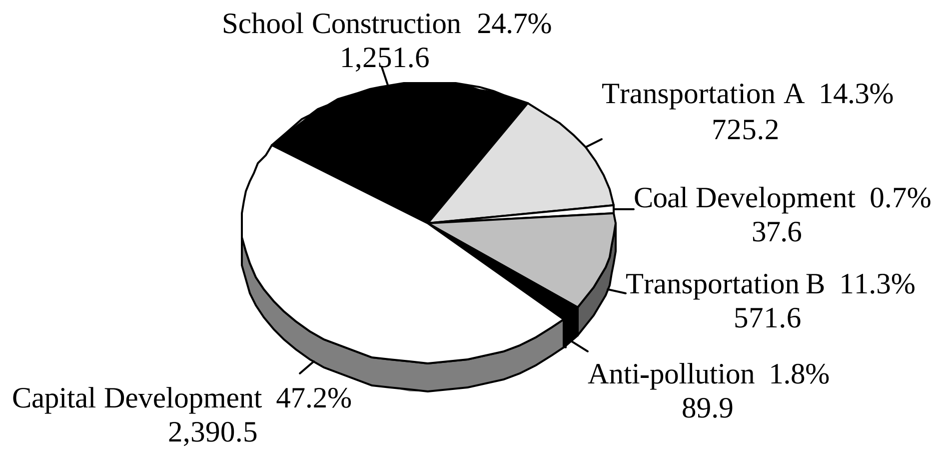


* FY 2002 as enacted

As Chart 7 indicates, nearly 47.2% of all FY 2002 appropriations (both new and re-appropriations) are from the Capital Development Fund. Each bond fund category received new appropriations and re-appropriations. As parts of the whole general obligation bond appropriations pie, there were shifts in the percentages from FY 2001 to FY 2002 held by the different bond funds, the major changes being an increase in

School Construction funds from 19.4% to 24.7%, and a decrease in Capital Development funds from 53.1% to 47.2%.

CHART 7 FY 2002 G.O. APPROPRIATIONS
By Bond Fund
($ Millions)



Note: As enacted

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

TABLE 5: FY 2002 G.O. APPROPRIATIONS
By Capital Development Sub-Categories
($ in Millions)

	Re-Appropriations	New Appropriations	Total
Higher Education	$547.5	$178.5	$726.0
Corrections	455.7	41.6	497.3
Conservation	105.0	28.6	133.6
Mental Health	118.5	20.6	139.1
Other State Facilities	275.4	151.6	427.0
Water Resources	49.7	12.0	61.7
Libraries	1.0	0.0	1.0
Local Governments	222.4	39.9	262.3
Open Land Trust	54.5	87.0	141.5
Bond Sale Expenses	0.0	1.0	1.0
TOTAL	**$1,829.7**	**$560.8**	**$2,390.5**

State-issued Revenue Bonds

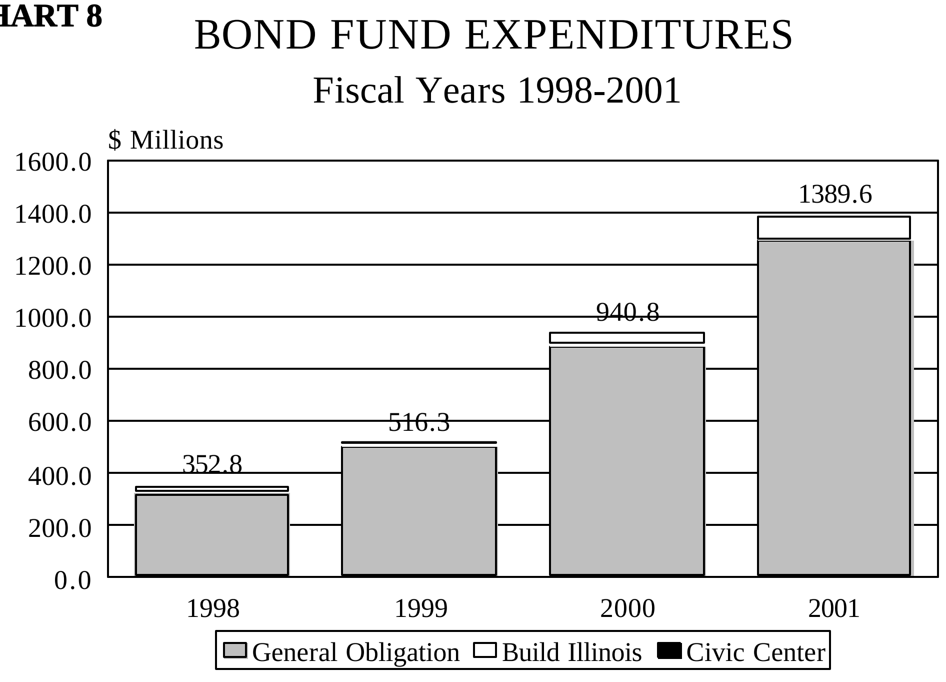
Build Illinois. Appropriations from the Build Illinois Bond Fund total $1.163 billion for FY 2002. Of this total, $591.0 million is re-appropriated from the prior year, with $572.3 million of new appropriations.

Civic Centers. The FY 2002 Civic Center Bond Fund appropriations include $0.178 million in re-appropriations. There are no new appropriations for this Fund.

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 8 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.

CHART 8



Actuals as of 6/30/01. 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 2001 increased in every category from FY 2000. During FY 2001, spending from these funds was $1.290 billion, compared to $888.1 million in FY 2000. The increase was driven largely by growth in expenditures from the Transportation A Fund (up $190.8 million) and the Capital Development Fund (up $83.0 million). The School Construction Fund increased spending $64.4 million in FY 2001. The Transportation B Fund increased by $39.3 million while the Anti-Pollution Fund increased by $17.1 million. The smallest increase occurred in the Coal Development Fund ($7.3 million).

State-Issued Revenue Bonds

Build Illinois. Build Illinois Bond Fund expenditures increased in FY 2001. The $99.7 million in expenditures made in FY 2001 reflects a $47.0 million increase from the previous year.

Civic Centers. There was no Civic Center spending in FY 2001.

DEBT RATIOS AND RATING CHANGES

Debt ratios consist of an extremely complex quantity of debt information summed up into one number and are only one piece to the whole ratings puzzle. "The debt ratio process involves a number of arbitrary or imprecise decisions. There is no direct correlation between a state's debt ratio and its rating." The bond rating is a more qualitative process. The "focus is on relative degrees of financial flexibility among states. The debt rankings are a starting point, but by no means the only information considered…Moody's assesses the degree to which the state has fixed obligations that are not captured in the debt rankings", including unfunded pension obligations, contingent debt, etc. [Moody's Special Comment, February 2000].

According to an official at Fitch Inc. rating agency, a rating would not be reduced necessarily by shifting debt levels or an economic downturn. "A reduction would most likely be related to the inability of a state's legislature to address these types of imbalances in a timely way".

Illinois' Moderate Debt

The analyst for the State of Illinois at Fitch Inc. indicates that Illinois has a moderate debt rating. This assessment is based mainly on debt to personal income, which Illinois is at 2.3%. His team also looks at debt per capita and direct debt service as a percentage of revenues. Including Build Illinois, Illinois' debt rating is about 4%, placing it in Fitch's moderate category.

Low Debt	below 2%
Moderate Debt	2-6%
High Debt	above 7%
Average	2-4%
Illinois	4%

Bond Ratings

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' Bond 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.

Standard & Poor's affirmed its AA rating but revised its outlook upward on the State's credit from stable to positive in the summer of 2000, 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).

In June of 2000, Fitch, Inc., which had 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". Fitch raised the State's Build Illinois bond rating to AA+ at the end of February 2001.

ILLINOIS

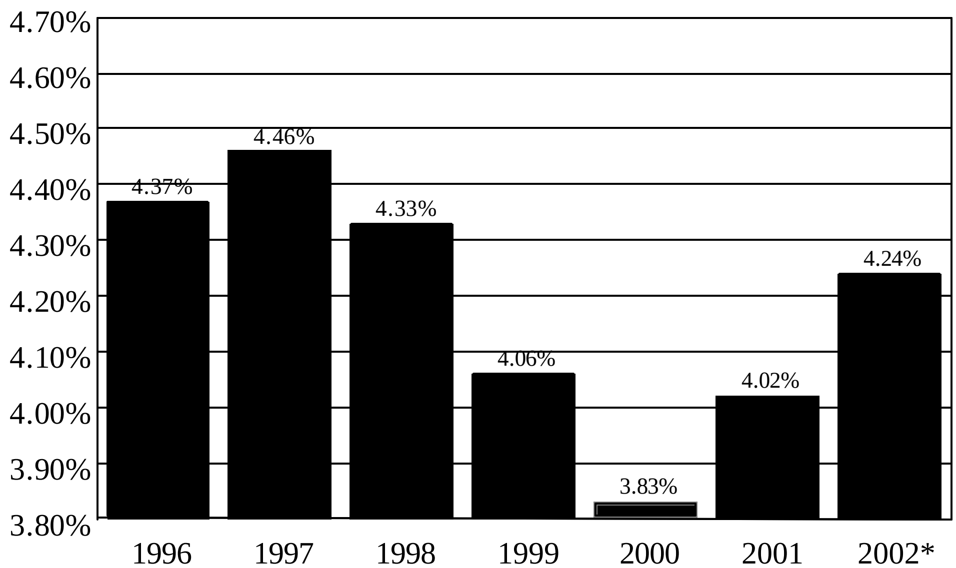
RATING AGENCIES	JULY 1997	JUNE 1998	JUNE 2000	MAXIMUM RATING POSSIBLE
Fitch, Inc.	AA	AA	AA +	AAA
Standard & Poor’s	AA	AA	AA	AAA
Moody’s Investor Service	Aa3	Aa2	Aa2	Aaa (quality) or Aa1 (credit)

DEBT COMPARISONS: ILLINOIS v. OTHER STATES

Chart 9 shows G.O. and State-issued revenue debt service to general funds receipts.

CHART 9

G.O. AND STATE-ISSUED REVENUE DEBT SERVICE TO GENERAL FUNDS RECEIPTS



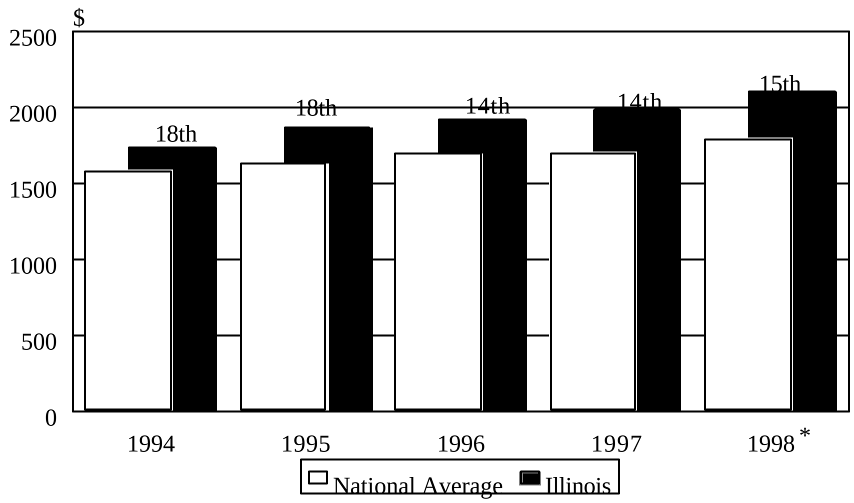
* IEFC Estimate

Table 6 shows Illinois' ranking in comparison with the top ten states for per capita debt outstanding (SOURCE: State Rankings 2001-information from the U.S. Bureau of the Census, Governments Division):

TABLE 6 Per Capita Debt Outstanding in 1998 (includes short-term, long-term, full faith & credit, nonguaranteed and public debt for private purposes)		
National Per Capita Average = $1,791		
RANK	STATE	PER CAPITA DEBT OUTSTANDING
1	Alaska	$6,176
2	Rhode Island	$5,418
3	Connecticut	$5,417
4	Massachusetts	$5,344
5	Delaware	$5,067
6	Hawaii	$4,796
7	New Hampshire	$4,526
8	New York	$4,034
9	Vermont	$3,572
10	New Jersey	$3,362
15	**Illinois**	**$2,097**
Range: Alaska ($6,176) to Kansas ($535)		

Chart 10 shows Illinois' ranking over the past five years in comparison to the national average of per capita debt outstanding.

CHART 10 PER CAPITA DEBT OUTSTANDING
Illinois -vs- National Average



* The most recent data available, from State Rankings 2001. This includes short-term, long-term, full faith and credit, nonguaranteed and public debt for private purposes, using data from the U.S. Bureau of the Census, Governments Division.

Table 7 lists the ten states that have the highest government debt outstanding as a percentage of total U.S. debt (SOURCE: State Rankings 2001-information from the U.S. Bureau of the Census, Governments Division):

TABLE 7

Top 10 States in Debt Outstanding as % of total U.S. Debt
National Debt Total = $483.1 billion
(includes short-term, long-term, full faith & credit, nonguaranteed and public debt for private purposes)

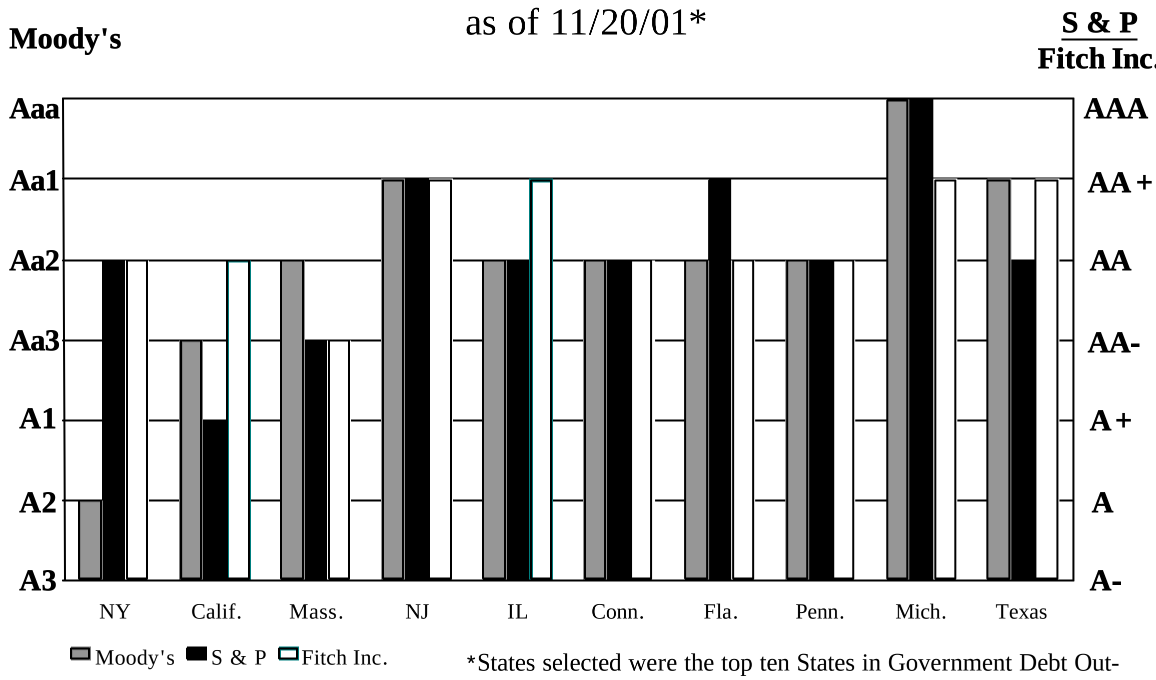
RANK	STATE	DEBT (in billions)	% of USA
1	New York	$73.3	15.2%
2	California	$50.3	10.4%
3	Massachusetts	$32.8	6.8%
4	New Jersey	$27.2	5.6%
5	**Illinois**	**$25.3**	**5.2%**
6	Connecticut	$17.7	3.7%
7	Florida	$17.0	3.5%
8	Pennsylvania	$16.4	3.4%
9	Michigan	$16.1	3.3%
10	Texas	$14.4	3.0%

Range: New York ($73.3 billion--15.2%)
to North Dakota ($0.9 billion--0.2%)

Chart 11 compares the bond ratings for the same ten states listed in Table 7. As shown, Illinois' ratings are similar to these selected states.

CHART 11

BOND RATINGS for SELECTED STATES
as of 11/20/01*



*States selected were the top ten States in Government Debt Outstanding in 1998 as a percentage of total US debt.
SOURCE: State Rankings 2001

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 2001, the General Assembly passed Public Act 92-0012, a law increasing the Illinois Development Finance Authority's bonding authorization for clean coal and energy projects by $3.0 billion as part of a coal assistance package.

Also introduced this session were pieces of legislation that, if passed, would affect some of the bonding authorities. Senate Bill 1010 would consolidate sixteen of the non-State supported bonding authorities into one named the Illinois State Finance Authority. House Bills 1492 and 3171 would abolish the Toll Highway Authority giving its duties to the Department of Transportation. At this time, all three of these bills are in the Rules Committee of their respective houses.

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 8.

CHART 12

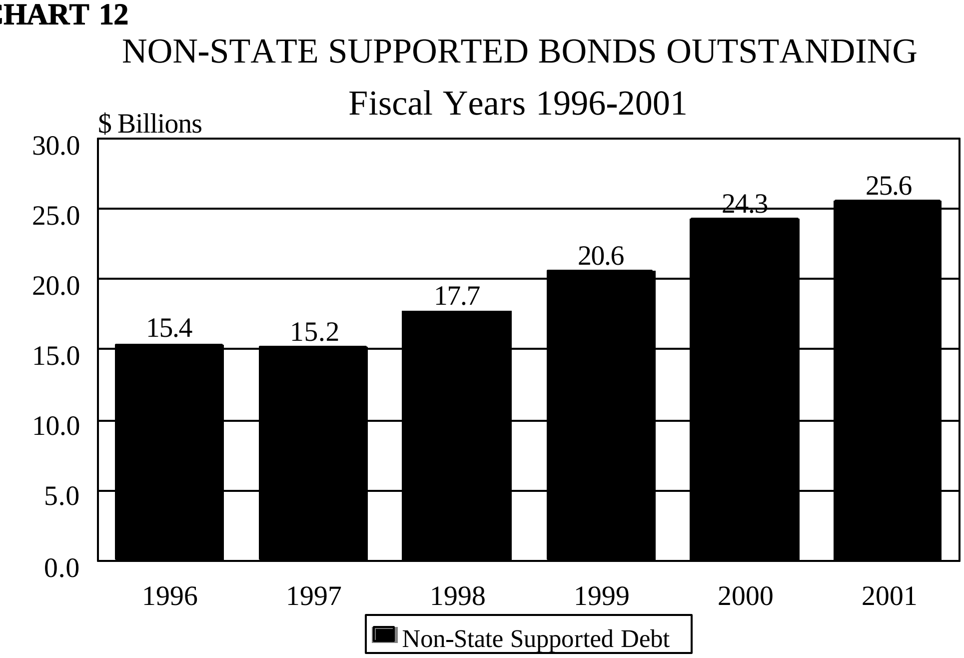


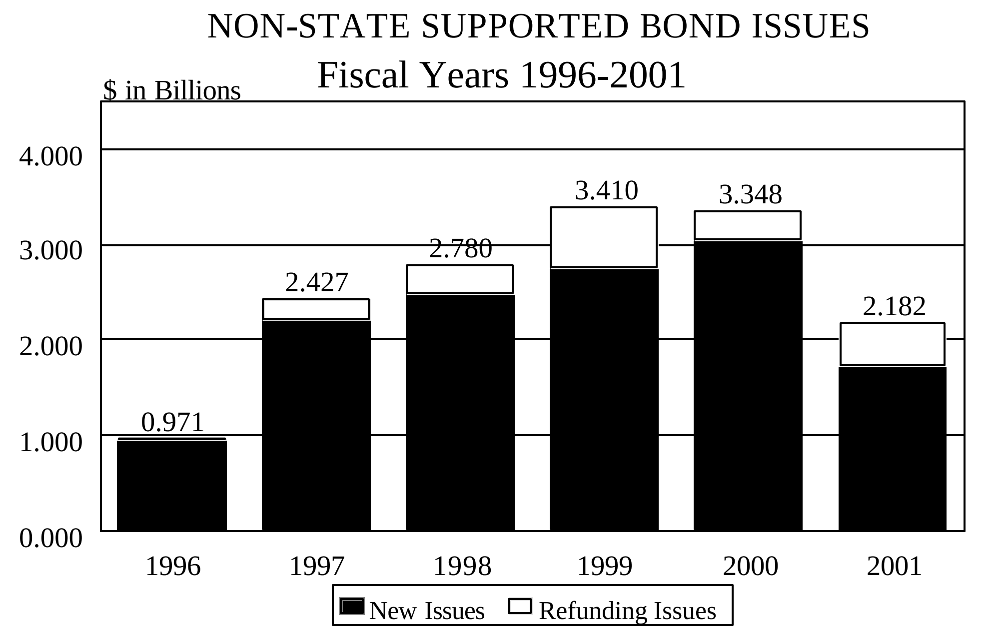
TABLE 8: NON-STATE SUPPORTED DEBT Bonding Authorities ($ in Millions)		
	Kind of Debt	FY 2001 Bonds Outstanding
IL Development Finance Authority	Conduit	$7,105.3
IL Education Facilities Authority	Conduit	2,330.9
IL Farm Development Authority	Conduit	91.8
IL Health Facilities Authority	Conduit	9,250.9
IL Housing Development Authority	User Charge and Moral Obligation	2,026.1
IL Rural Bond Bank	Conduit and Moral Obligation	91.4
IL State Toll Highway Authority	User Charge	819.0
IL Student Assistance Commission	User Charge	1,991.5
Quad Cities Regional Economic Development Authority	Conduit and Moral Obligation	27.5
Regional Transportation Authority (non SCIP)	Conduit	454.7
Southwestern IL Development Authority	Conduit and Moral	261.3
State Universities Retirement System	User Charge	10.0
Upper IL River Valley Devlpt. Authority	Conduit	56.1
Will Kankakee Regional Devlpt. Authority	Conduit	31.6
State Universities	User Charge	1064.4
TOTAL, NON-STATE SUPPORTED DEBT		**$25,612.5**
Some totals may not equal due to rounding		

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.

Total issues of non-state supported bonds remained steady from FY 1999 to FY 2000. In FY 2001, the level of bond issuance decreased 34.8% from $3.348 billion to $2.182 billion. New debt issues decreased $1.318 billion, or 43.3% from the FY 2000 level of $3.041 billion to $1.723 billion in FY 2001. Refunding issues increased to $458.8 million in FY 2001, an increase of $151.4 million, or 49.3%, from the FY 2000 level of $307.4 million. When bonding authorities are audited, they are now asked whether any current bonds outstanding can be refunded or defeased (paid off), and if so, why they haven't been.

CHART 13



September 11th Terrorist Attacks

Since September 11th, the following bond sales have occurred:

Authority	Millions	Date	Ratings
IL Education Facilities Authority	$75.0	9/24/01	Aa1/AA/AA +
IL Health Facilities Authority	$91.5	10/4/01	A3
IL Development Finance Authority	$ 8.0	10/19/01	AA-
IL Health Facilities Authority	$22.0	10/22/01	A-/A-

To aid airports since the September 11th attacks, the Illinois Development Finance Authority has the capability to provide up to $150 million of tax-exempt assistance under its medium-term note program and up to another $150 million in loans to airports through a taxable program.

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