ILLINOIS ECONOMIC
and
FISCAL COMMISSION

ILLINOIS BOND WATCHER
2002

NOVEMBER 2002
703 STRATTON BUILDING
SPRINGFIELD, ILLINOIS 62706

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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 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, the table 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.

2002 BOND WATCHER
EXECUTIVE SUMMARY

- In June of 2001, General Obligation bond authorization was increased by $1.067 billion and again by $1.643 billion in June of 2002. Of this amount, $930.0 million brought the school construction program to a total of $3.03 billion. This increase will help fulfill all but 25 school district requests from FY 2002.

- The legislature authorized $750.0 million of "Tobacco Securitization" bonds under the General Obligation Bond Act to be sold in FY 2003. If the bonds were to be sold, 50% would be deposited into the Budget Stabilization Fund, and 50% of the proceeds would be deposited into the General Revenue Fund to meet the ordinary and contingent expenses of the State.

- In June 2002, Public Act 92-0598 increased the debt authorization of the Build Illinois program by $264.8 million, to $3.806 billion. The Build Illinois program had $1.419 billion of available bond authorization at the start of FY 2003.

- In FY 2002, the State sold $1.5 billion in general obligation bonds and $150.0 million in State-issued revenue bonds. The Bureau of the Budget estimate for FY 2003 indicates the sale of $1.7 billion in general obligation bonds and $200.0 million in Build Illinois bonds.

- The State issued $1.0 billion in Revenue Anticipation Certificates in July of 2002 with $700 million of the proceeds used to relieve general cash flow pressures and provide for the payment of appropriated amounts for medical assistance under the Illinois Public Aid Code. The remainder of the proceeds was split between the Income Tax Refund Fund and the Long Term Care Provider Fund.

- Total outstanding State-supported principal expected for FY 2003 is $10.861 billion, a 13.8% increase over the FY 2002 level. The FY 2003 estimate for general obligation outstanding principal is $8.796 billion, while State-issued outstanding principal is estimated to be $2.065 billion.

- The Bureau of the Budget estimates general obligation debt service to cost $964.3 million in FY 2003, an increase of $112.8 million, or 13.2%, over FY 2002. State-issued revenue bond debt service should increase to approximately $212.2 million in FY 2003.

- The FY 2003 estimate of total general obligation appropriations is $5.070 billion, down $114.0 million from the FY 2002 level of $5.184 billion. This estimate consists of $3.377 billion in re-appropriations with $1.693 billion in new appropriations.

ILLINOIS BONDS AT A GLANCE

($ in Millions)

	FY 2001	FY 2002	From Previous Year $ Chg.	From Previous Year % Chg.	Estimated 2003	From Previous Year $ Chg.	From Previous Year % Chg.
Bond Sales*							
General Obligation	$1,165.1	$1,500.0	334.9	28.7%	$1,700.0	200.0	13.3%
Revenue	125.0	150.0	25.0	20.0%	200.0	50.0	33.3%
Locally-issued †	100.0	559.0	459.0	459.0%	1,062.0	503.0	90.0%
TOTAL	**$1,390.1**	**$2,209.0**	**818.9**	**58.9%**	**$2,962.0**	**753.0**	**34.1%**
Outstanding Principal							
General Obligation	$6,600.0	$7,629.9	1,029.9	15.6%	$8,795.5	1,165.6	15.3%
Revenue	1,844.2	1,912.7	68.5	3.7%	2,064.8	152.1	8.0%
Locally-issued	2,915.7	3,154.2	238.5	8.2%	4,135.4	981.2	31.1%
TOTAL	**$11,359.9**	**$12,696.8**	**1,336.9**	**11.8%**	**$14,995.7**	**2,298.9**	**18.1%**
Debt Service							
General Obligation	$790.5	$851.5	61.0	7.7%	$964.3	112.8	13.2%
Revenue	178.9	183.0	4.1	2.3%	212.2	29.2	16.0%
Locally-issued	173.8	195.7	21.9	12.6%	218.8	23.1	11.8%
TOTAL	**$1,143.2**	**$1,230.2**	**87.0**	**7.6%**	**$1,395.3**	**167.1**	**13.6%**
General Revenuesⓘ	**$24,106.0**	**$23,378.0**	**-728.0**	**-3.0%**	**$24,178.0**	**799.0**	**3.4%**
G.O. & Revenue Debt Service as % General Revenues	**4.02%**	**4.42%**			**4.87%**		
G.O. Bond Rating							
Moody's		Aa2					
Standard & Poor's		AA					
Fitch Ratings		AA+					

* does not include refunding sales

† FY 2002 includes RTA SCIPs and ISFA bonds issued for the Soldier Field renovation. FY 2003 includes RTA SCIPs and MPEA expansion bonds.

ⓘ The FY 2003 General Revenue Estimate uses IEFC's July 2002 estimate.

Sources: Bureau of the Budget, MPEA, RTA, and ISFA.

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 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 2003 are projections by the Illinois Economic and Fiscal Commission based on the Bureau of the Budget's estimate of FY 2003 bond sales.

CURRENT BOND TOPICS

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. Governor George Ryan 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 authorization for general obligation and Build Illinois bonds. 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 annual 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 remains 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.

Of the $4.3 billion of new State bond debt allocated for Illinois First, $3.8 billion has been appropriated. Following is a list of appropriations and expenditures for Illinois FIRST programs. FY 2004 is to be the last year for Illinois FIRST appropriations.

Funds Appropriated and Spent for Illinois FIRST

	Appropriated FY 2000-2003	Spent as of 10/16/2002
Transportation A-Highways	$1,550	$1,000
Transportation B-Aviation	$132	$37
Transportation B-Rail	$80	$32
Trans. B-Mass Transit Statewide	$444	$59
School Construction	$1,000	$516
Anti-pollution-Drinking/Wastewater	$87	$43
Open Land Trust Program	$203	$86
Brownfields	$48	$20
Water Resources-Lake Michigan	$28	$5
Well capping	$8	$4
Prime Sites	$94	$30
Pullman	$10	$1
Deferred Maintenance	$80	$19
TOTAL	**$3,761**	**$1,852**

Source: Bureau of the Budget

In FY 2002, general obligation authorization was increased by $1.643 billion (excluding refunding) to a total of $16.908 billion. Of this amount, $930 million was directed towards the school construction program. Authorization also was increased for the Build Illinois program in FY 2002 by $264.8 million, for a total authorization of $3.806 billion (there is no authorization limit set for Build Illinois refunding bonds).

School Construction

The School Construction Program is a grant program to help school districts fund building projects and renovations. School districts must provide an application to the State Board of Education and be approved, then pass a referendum 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 depending on the priority of needs—disasters, shortage of classrooms due to overpopulation, aging buildings, interdistrict reorganization, health/life safety hazards, accessibility for individuals with disabilities, and other unique priority situations. Applications for funding in FY 2004 are to be submitted by April 1, 2003.

Grant Applications Per Fiscal Year	1998	1999	2000	2001	2002	2003	Est. 2004
Applications Received	57	197	157	166	204	90	11
Applications Entitled*	53	161	131	148	191	3-4**	0

* Entitlement signifies that a district has demonstrated a need and is eligible for a grant should sufficient funds be appropriated. (Source: IL State Board of Education)

** FY 2003 entitlements are suspended except for emergency situations. This amount denotes estimated emergency situations.

Appropriations by Fiscal Year ($ in Millions)	1998	1999	2000	2001	2002	2003	Est. 2004
State Appropriation	$30.0	$327.0	$540.0	$500.0	$740.0	$489.0	$500.0

The FY 2003 and estimated FY 2004 appropriations will allow for the funding of 87% of the entitled FY 2002 projects. Approximately 25 entitled districts will not receive funding even with the $930 million increase in school construction authorization. These numbers do not include FY 2003 applications. The Illinois State Board of Education is not actively soliciting applications, but they are still receiving them from local school districts.

Grants are funded from the School Construction portion of general obligation bond sales. The proceeds from the bond sales are placed in the School Construction Fund. Grant amounts to schools for construction projects and costs are paid out of this fund.

Debt service on School Construction bonds is paid for by transfers from the School Infrastructure Fund. This fund receives transfers from the General Revenue Fund in the amount of $60 million a year (approximately 75% of the additional liquor tax increase from IL FIRST), $60 million a year from the cigarette tax ($5 million a month from the cigarette tax increase enacted in FY 2002 to begin April 1, 2003), and 1/7th of the 7% Telecommunications Excise tax from the School Reform Act (approximately $110 million a year).

School Infrastructure Fund	1998	1999	2000	2001	2002	Est. 2003	Est. 2004
Telecommunications Excise Tax	$35.2	$101.5	$108.5	$114.9	$110.4	$110.0	$110.0
Liquor Tax	-----	-----	$60.0	$60.0	$0.0*	$0.0*	$60.0
Cigarette tax	-----	-----	-----	-----	-----	$15.0	$60.0
TOTAL	**$35.2**	**$101.5**	**$168.5**	**$174.9**	**$110.4**	**$125.0**	**$230.0**

NOTE: Illinois Economic and Fiscal Commission estimates
*The liquor tax transfer was suspended for FY 2002 and FY 2003 as part of the budget agreement.

Funds are transferred monthly from the School Infrastructure Fund to the General Obligation Bond Retirement and Interest Fund to pay for the school construction portion of debt service. The following table shows the debt service on school construction bonds tied to transfers from the School Infrastructure Fund.

G.O. Bond Retirement and Interest Fund ($ in Millions)	1998	1999	2000	2001	2002	Est. 2003
Debt Service tied to transfer from School Infrastructure Fund	N/A	7.0	21.0	49.0	73.2	125.8

Source: Bureau of the Budget

Current debt service on School Construction bonds is adequately funded. If bond authorization were increased to meet School construction needs, additional funding for debt service would be required.

Short-Term Borrowing

The $1.0 Billion in Revenue Anticipation Certificates were sold July 16 at an interest rate of 1.43% to meet the cash flow problems of the State. The proceeds from this sale were available July 23 and disbursed as follows:

- $700 million into the general funds to relieve general cash flow pressures and to provide for the payment of appropriated amounts for medical assistance under the Illinois Public Aid Code;
- $150 million into the Income Tax Refund Fund; and,

- $150 million into the Long Term Care Provider Fund to pay medical providers for their medical assistance under the Public Aid Code.

State short-term debt may be incurred for two reasons—to resolve cash flow problems or to meet deficits caused by emergencies or failures of revenue. If the short-term debt is to be used only for cash flow purposes, up to 5% of the State's appropriations for that fiscal year may be incurred and must be repaid by revenues by the end of that fiscal year. If used for budget deficit, up to 15% of the State's appropriations for that fiscal year may be incurred and must be repaid within one year. The State has done similar cash flow short-term borrowing in the past from 1983 to 1996, in amounts ranging from $100 million to $900 million.

On January 15, 2003, $100 million dollars of the certificates will reach maturity and be paid. The amount of $300 million will be paid in each of the following months to retire the remaining certificates: April 15, May 15, and June 15. The certificates are federally tax-exempt, but not State tax-exempt. General Revenue funds will be transferred to the General Obligation Bond Retirement and Interest Fund to pay for their $700 million portion of the Revenue Anticipation Certificates. The Income Tax Refund Fund and Long Term Care Provider Fund will repay their respective portions of $150 million each.

Fitch Ratings, Standard & Poor's and Moody's have given these certificates their highest short-term debt ratings of F1+, SP-1+ and MIG 1, respectively, reflecting strong and superior credit quality. Although the certificates are not full faith and credit obligations of the State, they are secured by required transfers of <u>any</u> FY 2003 revenues in the Treasury (not just general funds) to pay off the debt, without legislative action. This allows for a 4.5 times coverage level of the debt.

As for the State's fiscal operations, Fitch points to the "recent period of successful financial operations through fiscal 2001…(The) State addressed the $1.2 billion projected fiscal 2003 budget shortfall without resorting to deficit financing…(and) Potential emergency revenue measures remain available", including $750 million authorized for "Tobacco Securitization" and the ability to sell a 10th riverboat license.

Moody's rating was influenced by "the state's strong cash monitoring and control procedures, and prior track record of successful short-term borrowing in the early and mid-1990s' period of financial strain in the state's General Funds. In addition, the state's long-term credit position is sound, based on its diversified and growing economy, above-average resident wealth levels, moderate debt burden, and good system of financial controls notwithstanding low reserves and a significant variance in revenues from the budget forecast in fiscal 2002."

"Tobacco Securitization" General Obligation Bonds

Many states have turned to tobacco settlement securitization as a way of obtaining immediate funds to reduce their budget gaps. Public Act 92-0596 authorized $750.0 million in General Obligation "Tobacco Securitization" bonds to be issued in FY 2003 only. The proceeds would be split in half, with 50% going to the Budget Stabilization Fund, and 50% going to the General Revenue Fund to help pay for the ordinary and contingent expenses of the State. The bonds would be paid off using tobacco settlement payments, which would be transferred to the General Obligation Bond Retirement and Interest Fund. This type of tobacco bond is, in reality, a double barrel bond using tobacco settlement payments for a revenue stream backed by the State's general obligation pledge, which would be attractive for investors. With a G.O. pledge, the bonds will get lower interest rates, although these bonds would most likely be taxable since they would be used for operating costs.

The tobacco settlement bonds that Illinois lawmakers have authorized are not structured the same as other "Tobacco Securitization" bond deals entered into by other states. The main difference between the two is that Illinois would not actually be securitizing their tobacco settlement payments and pushing the risk off onto another entity and bond buyers. Instead, Illinois would be using their tobacco settlement payments as a dedicated revenue stream for General Obligation bonds. As a result, Illinois would benefit by receiving the full amount of the bond sale proceeds. However, by relying on these tobacco settlement payments as a source of revenue, Illinois assumes the risk that the tobacco companies may be unable to make these tobacco settlement payments in the future.

The way most states have structured tobacco settlement bonds is by setting up a special-purpose entity designed to be bankruptcy proof. The state then transfers all or a portion of settlement payments to the entity. The entity then issues the bonds, pledges a portion of each annual settlement payment for debt service, and assumes all of the risk. Bonding allows the state to receive its long-term income streams now instead of over a long period of time. However, this process is costly as the state loses value on the dollar due to minimizing risk and by paying interest over the years to pay it off.

When issuing true securitization bonds, a state has to give up a percentage of the settlement proceeds to the entity and give a discount to bond buyers. This "discount" rate is determined by a number of market factors. The best discount rate that a state has received from tobacco settlement bonds is the 25% discount that Wisconsin received in its tobacco bond sale. In other words, the actual cash receipt from the bond sale would be $0.75 on the dollar. (For a more detailed look at "Tobacco Securitization" please see the IEFC's report "Illinois Cigarette Tax and Tobacco Settlement", pages 17-21.)

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 increased 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. The original amount placed in the Advance Account of $8 million would be increased to $22.179 million (the "Advance Amount") for FY 2002, and would increase each fiscal year by 105.615% (rounded to the nearest $1,000) until the year 2032.

The ISFA bonds were sold in October of 2001. As part of the bond sale, the ISFA was able to save on debt service for the first two years of the bonds maturity. Therefore, the Advance Amount requested by the Authority was reduced to only $15.172 million in FY 2002, and $19.166 million in FY 2003. The additional amounts approved but not requested during FY 2002 and FY 2003 may be requested at a later date, if needed. Debt service was structured to match revenues available. Less money will be paid toward debt service on the Soldier Field bonds in the first years until the funds are freed up from the retirement of Comiskey Park debt in 2010. Construction on the Soldier Field and Lakefront Improvement projects is scheduled for completion in September of 2003.

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 lengthening 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.

On July 2, 2002, the Metropolitan Pier and Exposition Authority issued $1.09 billion series 2002 McCormick Place expansion bonds, $802 million in new funding and $286 million in refunding. Fitch and Standard & Poor's both rated the bonds "AA-". The Authority's pledged tax revenues and reserves, and the State's sales tax pledge are viewed as ample coverage for the bonds. Requests for Proposal from construction companies are being taken during the summer of 2002, with construction planned from 2003 to 2007.

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	Competitive or Negotiated	Purpose
08/30/00	$300.0	General Obligation	Negotiated	Project Funding
09/19/00	50.3	Civic Center	Negotiated	Refunding
10/19/00	101.9	General Obligation	Negotiated	Project Funding
12/19/00	300.0	General Obligation	Negotiated	Project Funding
03/20/01	125.2	Build Illinois	Negotiated	Refunding
04/24/01	276.0	General Obligation	Negotiated	Project Funding (163.2) Refunding (112.8)
05/17/01	300.0	General Obligation	Negotiated	Project Funding
06/12/01	125.0	Build Illinois	Negotiated	Project Funding
Total FY'01	**$1,578.4**			
8/21/2001	$375.0	General Obligation	Negotiated	Project Funding
10/2/2001	$110.5	Build IL	Negotiated	Refunding
11/14/2001	$375.0	General Obligation	Negotiated	Project Funding
12/6/2001	$318.8	General Obligation	Negotiated	Refunding
2/14/2002	$375.0	General Obligation	Negotiated	Project Funding
4/3/2002	$375.0	General Obligation	Negotiated	Project Funding
4/23/2002	$150.0	Build Illinois	Negotiated	Project Funding
4/25/2002	$79.7	General Obligation	Negotiated	Refunding
5/2/2002	$50.3	Build Illinois	Negotiated	Refunding
5/2/2002	$94.8	Build Illinois	Negotiated	Refunding
Total FY'02	**$2,304.1**			

As Table 1 shows, bonds totaling $1.578 billion were sold during FY 2001, of which $1.290 billion was for project funding. Broken down, this equals $1.165 billion of general obligation bonds, and $125.0 million in revenue bonds for Build Illinois project funding.

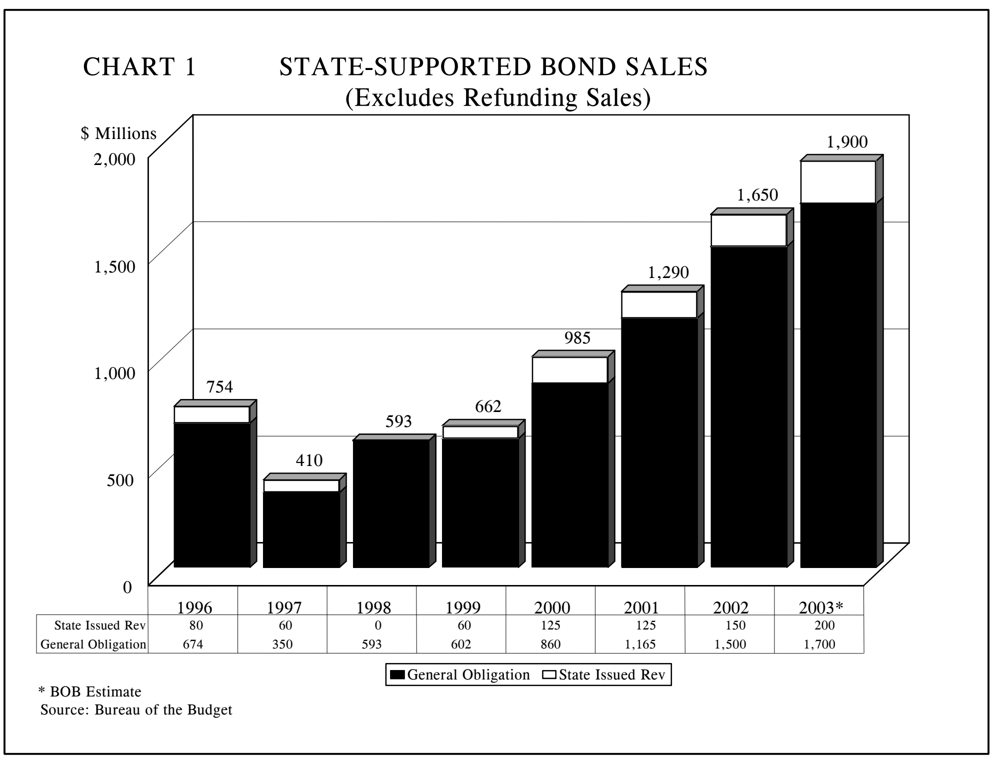
The total amount of new project bond sales during FY 2002 represents a 28.7% increase from the FY 2001 level. Of the $2.304 billion of bonds sold, $1.650 billion was for new projects. Table 2 illustrates the changes in bond sales by purpose from FY 2001 to FY 2002. The $654.1 million dollars of refunding bonds in FY 2002 are broken down to $398.5 million for general obligation bonds and $255.6 million for Build Illinois bonds.

As the economy slowed, lower interest rates made refundings more attractive. Refundings create savings over the remaining years of the refunded bond debt. The ability to refund bonds is dependent on the corresponding bond agreement, whether it allows bonds to be called early, how early, and at what premium (extra percent over the 100% value). To keep their federal tax-exempt status, bonds may only be advance refunded once. In FY 2000 there were no refunding bond sales. Yet, FY 2001 and FY 2002 saw $288.3 and $654.1 million dollars, respectively, in refunding bonds sales.

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

	FY 2001	FY 2002	$ Change	% Change
Projects	$1,290.1	$1,650.0	$359.9	27.9%
Refunding	288.3	654.1	365.8	126.9%
TOTAL	**$1,578.4**	**$2,304.1**	**$725.7**	**46.0%**

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



General Obligation Bonds

Chart 1 shows the level of general obligation bond and State-issued revenue bond sales for new money projects since 1996. In FY 2002, the State sold $1.500 billion in general obligation bonds and $150.0 million in State-issued revenue bonds.

Table 3 breaks down general obligation sales for FY 2001 and FY 2002 by purpose. In FY 2002, new project G.O. bond sales increased 28.7% to $1.165 billion, while refunding sales more than tripled to $398.5 million.

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

	FY 2001	FY 2002	$ Change	$ Change
Projects	$1,165.1	$1,500.0	$334.9	28.7%
Refunding	112.8	398.5	285.7	253.3%
TOTAL	**$1,277.9**	**$1,898.5**	**$620.6**	**48.6%**

The Bureau of the Budget estimate for FY 2003 indicates an increase in the sale of general obligation bonds for projects by 13.3% to $1.7 billion. As of October 2002, G.O. bond sales have included: $790.0 million for new projects, $62.1 million in College Savings bonds, $564.9 million in refunding bonds, and $1.0 billion in Revenue Anticipation Certificates (short-term borrowing).

College Savings Bonds. In October of 2002, the State issued $62.1 million in tax-exempt, zero-coupon College Savings Bonds. Zero-coupon bonds are sold at a discount dependent on interest rates and maturity, with a one-time payout at maturity of principal plus accumulated semi-annual interest equaling the $5,000 value of each bond. These bonds are actually General Obligations bonds with the October 2002 series proceeds going to Capital Facilities, Anti-Pollution, Coal and Energy Development, and Transportation A and B projects. Though the investment money may be used for any purpose, if the bond buyer uses their payoff for an Illinois college they may also apply for a Bonus Incentive Grant (BIG) through the Illinois Student Assistance Commission. The BIG program must have funds appropriated to it to cover the amount of possible grants for buyers of each issuance of College Savings bonds. Up to $2.2 billion in G.O. bonds may be sold as College Savings Bonds. The State has sold 11 issues from FY 1988 through FY 2001 equaling $2.050 billion with a total maturity value of approximately $4.0 billion.

State-Issued Revenue Bonds

State-issued new money revenue bond sales for FY 2002 were $150.0 million. In FY 2003, 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 four years increased:

YEAR	PUBLIC ACT	INCREASE
1999	91-0039	$754 Million
2000	91-0709	61.0 Million
2001	92-0009	688.7 Million
2002	92-0598	264.8 Million

Total Build Illinois bond authorization equals $3.806 billion with $1.418 billion remaining unissued at the end of FY 2002. Timing of the issuance of bonds is dependent on construction schedules. 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-$100 million. There is no refunding limit placed on Build Illinois bonds.

In FY 2002 new money bonds sales for Build Illinois were $150.0 million, and refunding bond sales were $255.6 million. The Bureau of the Budget estimates $200.0 million of new money bond sales for Build Illinois in FY 2003. Table 4 compares all Build Illinois bond sales by purpose for FY 2001 and FY 2002. The $200.0 million in new project Build Illinois bonds for FY 2003 are expected to be sold in November of 2002.

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

	FY 2001	FY 2002	$ Change	$ Change
Projects	$125.0	$150.0	$25.0	20.0%
Refunding	125.2	255.6	130.4	104.2%
TOTAL	**$250.2**	**$405.6**	**$155.4**	**62.1%**

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 for FY 2002 or FY 2003.

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. There are no projected bond sales for FY 2003.

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 an end of FY 2002 outstanding principal of $272.7 million; and
- Expansion Project Bonds—debt service is paid by Chicago-related taxes administered by the MPEA.

In 2001 the State increased the MPEA's bonding authorization by $800.0 million. Expansion bonds were sold July 2, 2002 in the amounts of $802.0 million for new projects and $286.0 million in refunding bonds.

Regional Transportation Authority. The Regional Transportation Authority has State-supported bonds called Strategic Capital Improvement Project (SCIP) bonds. The RTA is to sell their $1.3 billion in SCIPs from FY 2000 to FY 2004. The RTA has sold the following SCIP bonds:

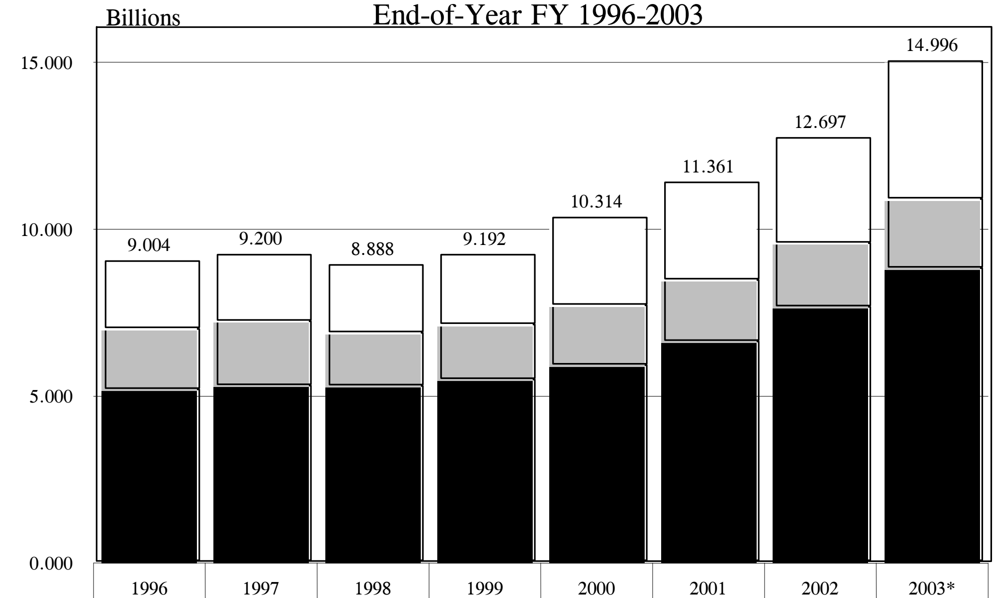
FY 2000	$260.0 million
FY 2001	$100.0 million
FY 2002	$160.0 million
Estimated FY 2003	$260.0 million

OUTSTANDING DEBT

As shown in Chart 2, State-supported principal continues to rise with the continuing Illinois FIRST program, and the recent sale of McCormick Place expansion bonds.

CHART 2 STATE-SUPPORTED PRINCIPAL OUTSTANDING

End-of-Year FY 1996-2003



	1996	1997	1998	1999	2000	2001	2002	2003*
Locally-Issued Revenue	2.026	1.999	2.031	2.087	2.630	2.917	3.154	4.135
State-Issued Revenue	1.818	1.924	1.589	1.649	1.798	1.844	1.913	2.065
General Obligation	5.160	5.277	5.268	5.456	5.886	6.600	7.630	8.796

General Obligation State-Issued Revenue Locally-Issued Revenue

*IEFC Estimate

Sources: Bureau of the Budget, MPEA, ISFA, and RTA

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 $12.697 billion. Total outstanding State-supported principal expected for FY 2003 is $14.996 billion, an 18.1% increase over the FY 2002 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 $5.886 billion at the end of FY 2000. This represents a $726 million increase from FY 1996 to FY 2000, averaging $181.5 million per year. From FY 2000 to the FY 2003 estimate of $8.796 billion, outstanding principal will have increased an average of $969.0 million per year, with half the increase related to Illinois FIRST programs in addition to the baseline capital program.

State-Issued Revenue Bonds

Starting with $1.818 billion in FY 1996, State-issued outstanding principal has fluctuated between $1.589 billion to an estimated $2.065 billion in FY 2003. After a $335.0 million drop from FY1997 to FY 1998, outstanding principal has increased by an average of $95.0 million a year up to the estimated FY 2003 level.

Locally-Issued Revenue Bonds

Principal outstanding for locally-issued revenue bonds saw growth in FY 2000 due to a McCormick Place expansion bond sale of $443.7 million and a Regional Transportation Authority SCIP bond sale of $260.0 million. In FY 2001, the amount of principal outstanding increased due to another McCormick Place expansion bond sale of $267.7 million and an RTA sale of $100.0 million. FY 2002 saw the sale of $399.0 million sale of Soldier Field renovation bonds and another $160.0 million of RTA SCIPs. FY 2003 will increase outstanding principal with the $802 million MPEA expansion project bond sale and an estimated RTA SCIP sale of $260 million.

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.

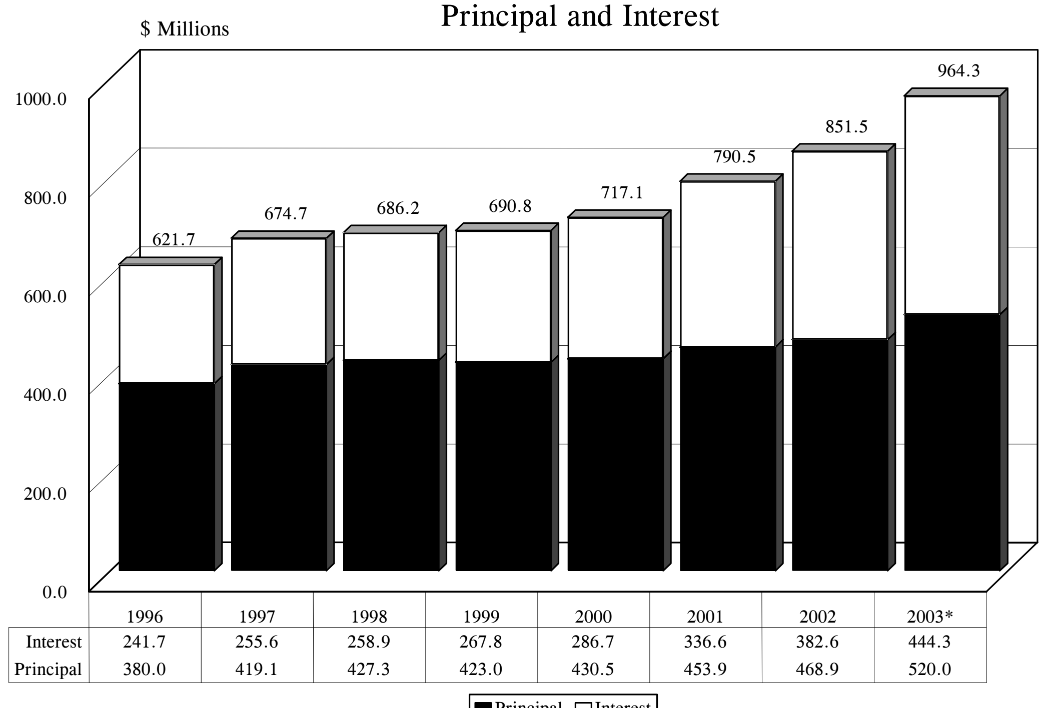
General Obligation

Chart 3, on the next page, 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 2002, the Road Fund supported $195.7 million (23.0%) of G.O. debt service, the School Infrastructure Fund $73.2 million (8.6%) and the General Revenue Fund $582.6 million (68.4%). It is estimated that Road Fund transfers will pay $212.9 million (22.1%), the School Infrastructure Fund $125.8 million (13.0%), and the General Revenue Fund $625.6 million (64.9%) of the debt service payment for FY 2003.

General Obligation Debt Service ($ in Millions)				
	FY 2002		Estimated FY 2003	
	Amount	% of Total	Amount	% of Total
Road Fund	$195.7	23.0%	$212.9	22.1%
School Infrastructure Fund	73.2	8.6%	125.8	13.0%
General Revenue Fund	582.6	68.4%	625.6	64.9%
TOTAL	**$851.5**	**100.0%**	**$964.3**	**100.0%**

FY 2002 principal of $468.9 million added to the $382.6 million in interest equaled a total debt service of $851.5 million. FY 2002 debt service of $851.5 million represented an increase of $61.0 million, or 7.7%, over the FY 2001 level of $790.5 million. The Bureau of the Budget estimates general obligation debt service to cost $964.3 million in FY 2003, an increase of $112.8 million, or 13.2%, over FY 2002. Illinois FIRST related debt has added $288 million annually to general obligation debt service payments when all additional authorized debt has been issued.

CHART 3 GENERAL OBLIGATION DEBT SERVICE
Principal and Interest



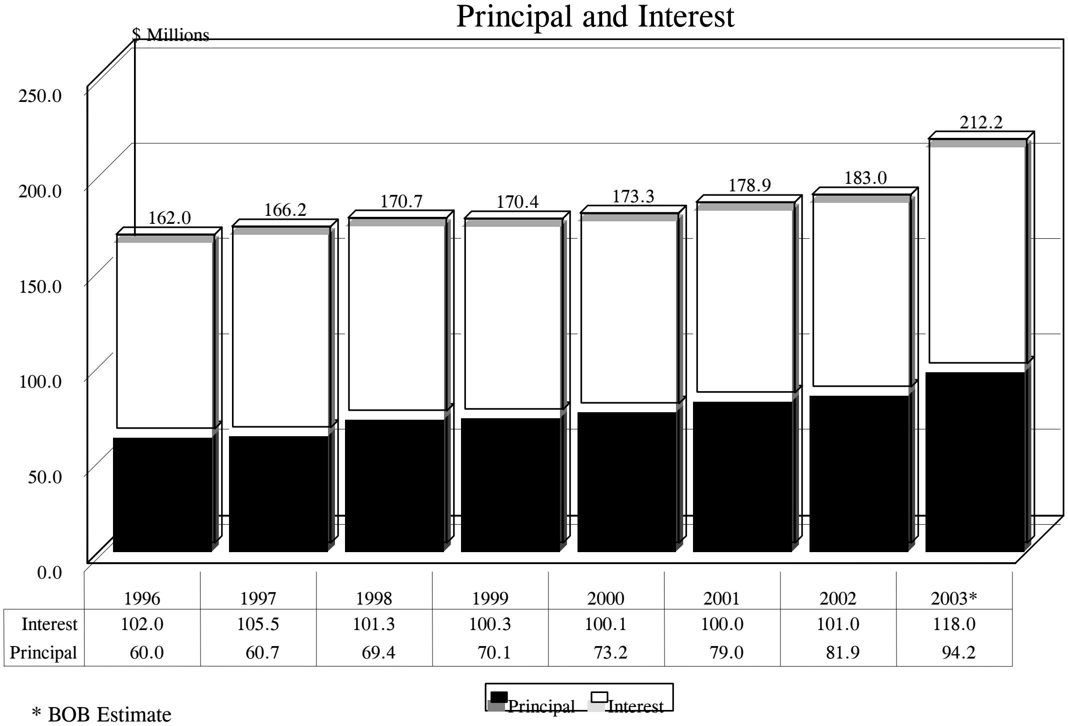
* BoB Estimate
Source: Bureau of the Budget

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 $212.2 million of payments on principal and interest estimated in FY 2003 represents an increase of $31.2 million, or 17.1%, from the $183.0 million level in FY 2002. The amount of principal to be paid in FY 2003 is estimated to be $94.2 million, an increase of 15.0% over the previous year. The amount of FY 2003 interest is estimated to be $118.0 million, an increase of 16.8%.

CHART 4 STATE-ISSUED REVENUE DEBT SERVICE
Principal and Interest



	1996	1997	1998	1999	2000	2001	2002	2003*
Interest	102.0	105.5	101.3	100.3	100.1	100.0	101.0	118.0
Principal	60.0	60.7	69.4	70.1	73.2	79.0	81.9	94.2

* BOB Estimate
Source: Bureau of the Budget

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 $169.1 million in FY 2002, consisting of $76.0 million in principal and $93.1 million in interest. The Bureau of the Budget estimates the FY 2003 level of principal and interest payment to be $198.4 million, an increase of 18.5%.

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. FY 2002 payments were $13.8 million, which is the same payment anticipated for FY 2003. 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 2003.

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, new project authorization was increased by $1.067 billion and in June of 2002 again by $1.643 billion.

	May 2000	June 2001	June 2002
Project Funding	$14,197,632,592	$15,265,007,500	$16,908,149,369
Refunding bonds	$ 2,839,025,000	$ 2,839,025,000	$ 2,839,025,000
TOTAL	**$17,036,657,592**	**$18,104,034,501**	**$19,747,174,369**

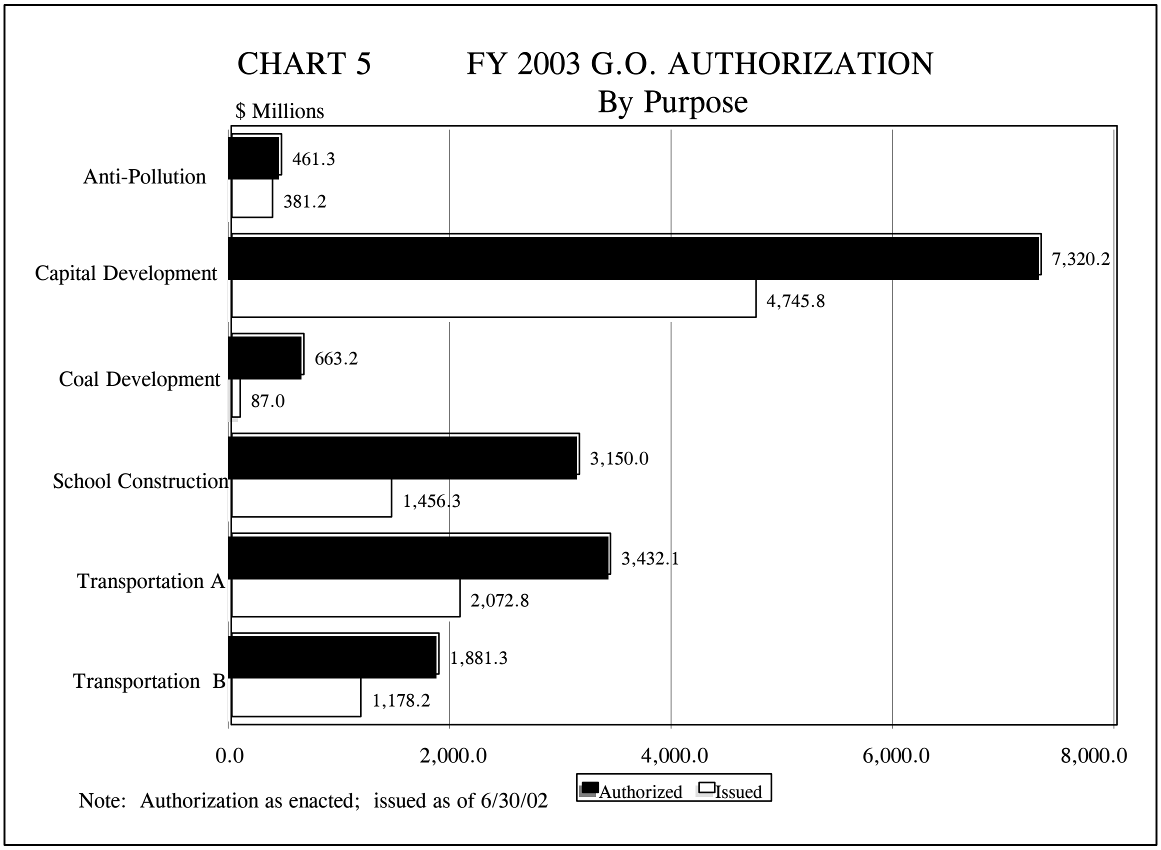
The Act distributes the June 2002 increased authorization as follows:

- $694.0 million for Capital Facilities;
- $ 19.0 million for Anti-Pollution; and,
- $930.0 million for School Construction.

School Construction. The School Construction bonding program received an increase in bond authorization of $930.0 million bringing the construction program to $3.03 billion. This increase will help fulfill all but 25 school district requests from FY 2002. Requests for grants for FY 2003 equal approximately 90 with FY 2004 requests still coming in unsolicited by the Board of Education.

"Tobacco Securitization" General Obligation Bonds. The legislature authorized $750.0 million of "Tobacco Securitization" bonds under the General Obligation Bond Act to be sold in FY 2003. The authorization was created as an option to help stabilize the State's budget. If the bonds were to be sold, 50% would be deposited into the Budget Stabilization Fund, and 50% of the proceeds would be deposited into the General Revenue Fund to meet the ordinary and contingent expenses of the State. As of issuance of this report, Governor George Ryan does not plan on using this measure during the remainder of his term in office.

Chart 5 breaks out authorization levels and amounts issued as of June 30, 2002, across bond fund categories.



State-Issued Revenue Bonds

In June 2002, Public Act 92-0598 increased the debt authorization of the Build Illinois program by $264.8 million, to $3,805,509,000. The Build Illinois program had $1.419 billion of available bond authorization at the start of FY 2003.

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 were issued July 2, 2002.

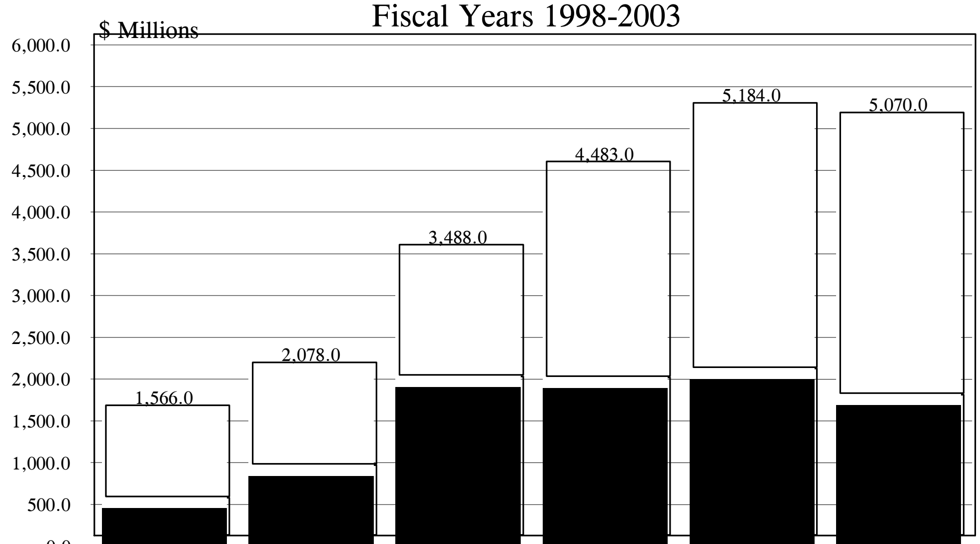
The Regional Transportation Authority has an annual authorization of $260.0 million from FY 2000 to 2004.

APPROPRIATIONS OF BOND FUNDS

General Obligation Bonds

The FY 2003 estimate of total general obligation appropriations is $5.070 billion, down $114.0 million from the FY 2002 level of $5.184 billion. This estimate consists of $3.377 billion in re-appropriations with $1.693 billion in new appropriations. The new appropriation request represents a decrease of $312.0 million, or 15.6%, from the FY 2002 level. Re-appropriations are 66.7% of all appropriations for FY 2003. These figures are presented in Chart 6, along with the corresponding levels going back to FY 1998.

CHART 6
GENERAL OBLIGATIONS APPROPRIATIONS
Fiscal Years 1998-2003



	1998	1999	2000	2001	2002	2003*
Reappropriations	1,107.0	1,231.0	1,577.0	2,586.0	3,179.0	3,377.0
New Appropriations	459.0	847.0	1,911.0	1,897.0	2,005.0	1,693.0

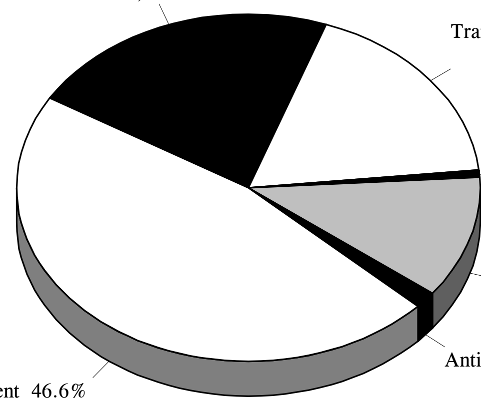
New Appropriations   Reappropriations

* FY 2003 as enacted
Source: Bureau of the Budget

As Chart 7 indicates, nearly 46.6% of all FY 2003 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 2002 to FY 2003 held by the different bond funds, the major changes being a decrease in

School Construction funds from 24.1% to 21.8%, and an increase in Transportation A funds from 14.3% to 18.1%.

CHART 7 FY 2003 G.O. APPROPRIATIONS
By Bond Funds
($ in Millions)



Note: As enacted
Source: Bureau of the Budget

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

TABLE 5: FY 2003 G.O. APPROPRIATIONS
By Capital Development Sub-Categories
($ in Millions)

	Re-Appropriations	New Appropriations	Total
Higher Education	$702.8	$232.1	$934.9
Corrections	396.3	25.5	421.8
Conservation	215.3	27.4	242.7
Mental Health	100.2	28.3	128.5
Other State Facilities	230.8	87.4	318.2
Water Resources	49.8	11.0	60.8
Libraries	4.8	0.0	4.8
Local Governments	146.6	68.1	214.7
Open Land Trust	0.0	36.0	36.0
Bond Sale Expenses	0.0	1.0	1.0
TOTAL	**$1,846.6**	**$516.8**	**$2,363.4**

Source: Bureau of the Budget

State-Issued Revenue Bonds

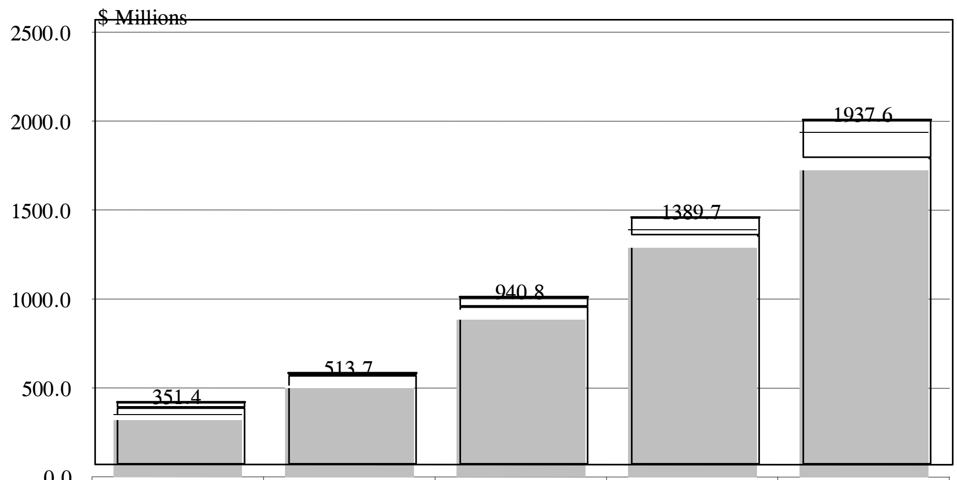
Build Illinois. Appropriations from the Build Illinois Bond Fund total $1.250 billion for FY 2003. Of this total, $987.7 million is re-appropriated from the prior year, with $262.3 million of new appropriations.

Civic Centers. The FY 2003 Civic Center Bond Fund appropriations include $173 thousand 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.

CHART 8 BOND FUND EXPENDITURES
Fiscal Years 1998-2002



	1998	1999	2000	2001	2002
Civic Center	0.1	0.0	0.0	0.0	0.0
Build Illinois	30.2	12.2	52.7	99.7	213.8
General Obligation	321.1	501.5	888.1	1290.0	1723.8

General Obligation Build Illinois Civic Center

Source: Bureau of the Budget
Actuals as of 6/30/02. 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 except coal development from FY 2001. During FY 2002, spending from these funds was $1.724 billion, compared to $1.290 billion the prior year, an increase of 33.6%. The increase was driven largely by growth in expenditures from the School Construction Fund up $286.6 million, or 79.4%, and the Transportation B Fund up $53.5 million, or 55.9%. Transportation A spending was up $50.2 million while Capital Development was up $34.9 million. The Anti-Pollution Fund increased by $9.4 million. The only decrease ($1.0 million) occurred in the Coal Development Fund.

State-Issued Revenue Bonds

Build Illinois. Build Illinois Bond Fund expenditures increased in FY 2002 from $99.7 million to $213.8 million. This reflects an increase of $114.1 million.

Civic Centers. There was no Civic Center spending in FY 2001, and only $438 was spent in FY 2002.

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 Fitch Ratings, 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

Illinois continues to have a moderate debt rating, according to Fitch Ratings, even after FY 2002's economic downturn. This assessment is based on debt to personal income, debt per capita and direct debt service as a percentage of revenues.

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

The rating agencies are watching how states will resolve their budget issues during these tough economic times. Fitch says that the biggest challenge will be FY 2004, where states will have to either raise taxes and/or incur deeper cuts in their budgets. Since FY 2003 depleted options for minor cuts and stopgap measures, FY 2004 will be even tougher across the country with fewer fiscal options available.

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 February 1997 and again in June of 1998, Illinois' general obligation bonds and Build Illinois bonds were upgraded by Moody's Investor Service, and are now rated 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). Due to the economy, S&P revised Illinois' outlook from positive to stable in FY 2002. Standard & Poor's has no states' GO ratings listed with a positive outlook at this time (10/11/2002). States are under great ratings pressures caused by the slow pace of economic recovery. With FY 2003 deficit balances, lack of reserves, and one-time measures that can't be repeated, budgets will have little room to maneuver. Even if economic recovery picks up, there will be a lag in revenues getting better, and a longer lag in ratings upgrades for states.

In June of 2000, Fitch Ratings, 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 Ratings	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.

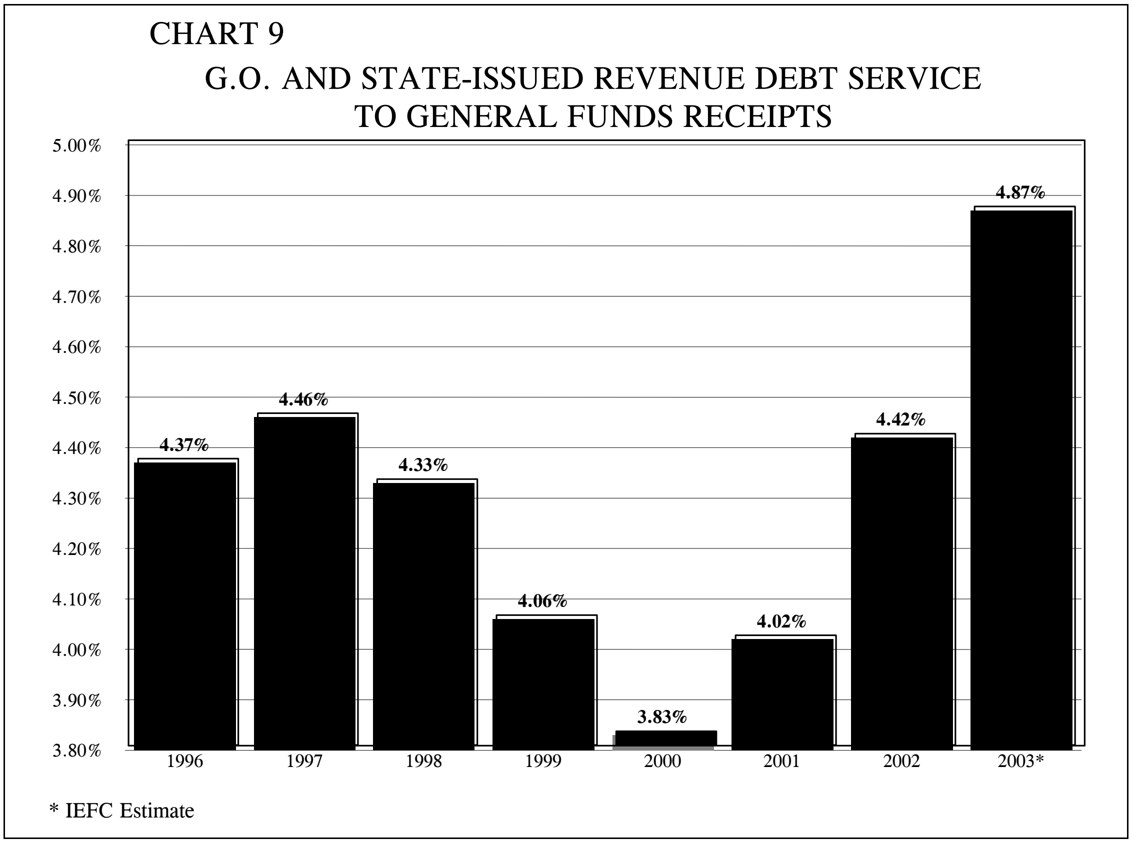
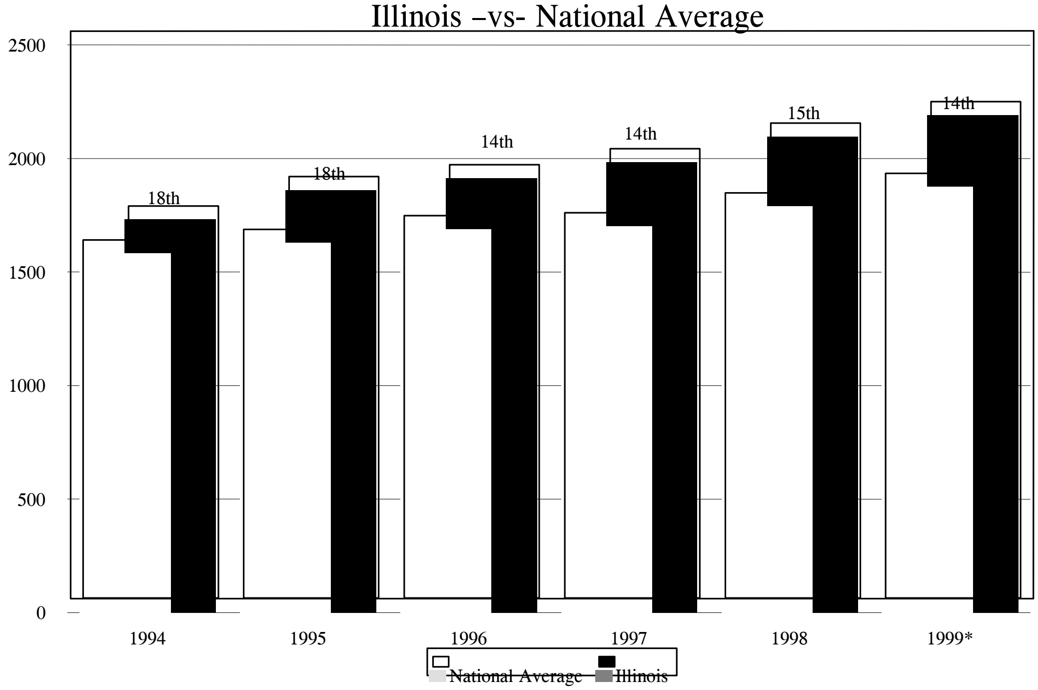


Table 6 shows Illinois' ranking in comparison with the top ten states for the most per capita debt outstanding (SOURCE: State Rankings 2002-information from the U.S. Bureau of the Census, Governments Division). In 1998, Illinois was ranked 15th with $2,097 of per capita debt compared to the national average of $1,791. In 1999, per capita debt outstanding rose across the nation with the national average at $1,876. Illinois is ranked 14th highest at $2,192.

TABLE 6 Per Capita Debt Outstanding in 1999 (includes short-term, long-term, full faith & credit, nonguaranteed and public debt for private purposes)		
National Per Capita Average = $1,876		
RANK	STATE	PER CAPITA DEBT OUTSTANDING
1	Alaska	$6,312
2	Massachusetts	$5,797
3	Rhode Island	$5,515
4	Connecticut	$5,334
5	Delaware	$4,927
6	Hawaii	$4,573
7	New Hampshire	$4,518
8	New York	$4,208
9	Vermont	$3,565
10	New Jersey	$3,430
14	**Illinois**	**$2,192**
Range: Alaska ($6,312) to Kansas ($559)		

Chart 10 shows Illinois' ranking since 1994 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 2002. 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 for 1999 (SOURCE: State Rankings 2002-information from the U.S. Bureau of the Census, Governments Division). In 1998, the national debt total was $483.1 billion, with Illinois making up approximately 5.2% of that total with $25.3 billion in debt. Nation-wide outstanding debt rose to $510.5 billion in 1999. Illinois' portion of that debt equaled 5.2% with $26.6 billion of outstanding debt.

TABLE 7

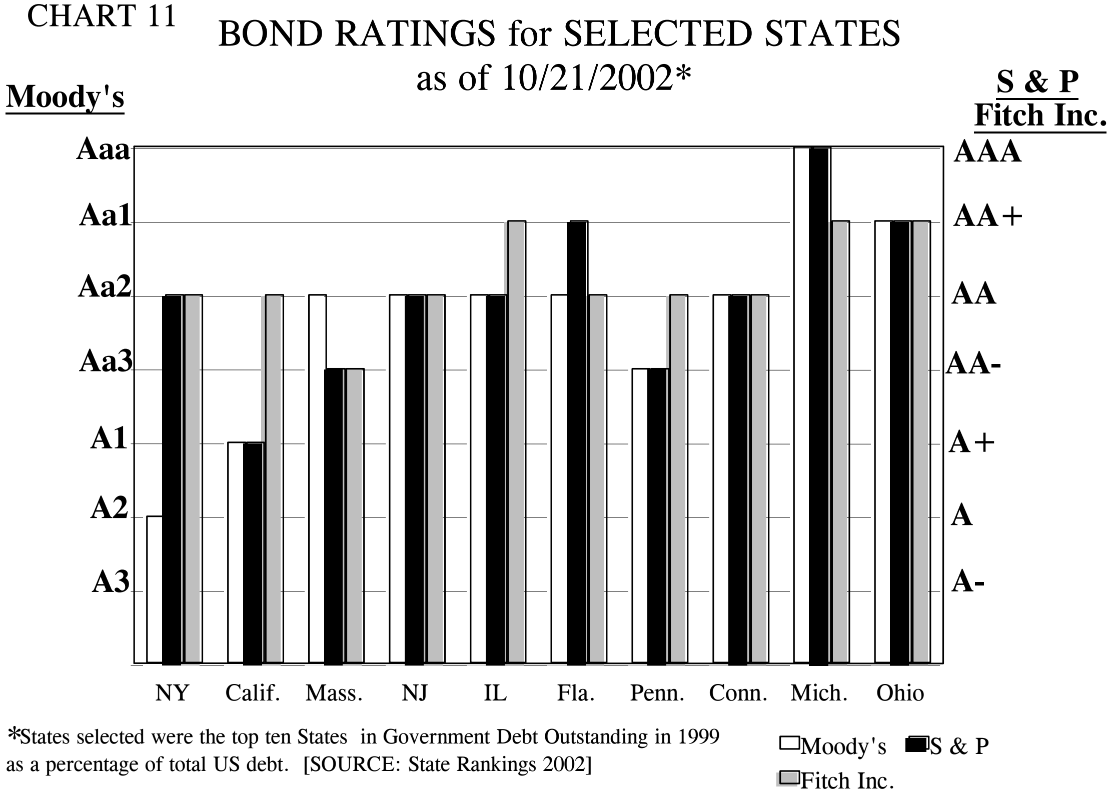
Top 10 States in Debt Outstanding as % of total U.S. Debt
National Debt Total = $510.5 billion
(includes short-term, long-term, full faith & credit, nonguaranteed and public debt for private purposes)

RANK	STATE	DEBT (in billions)	% of USA
1	New York	$76.6	15.0%
2	California	$54.0	10.6%
3	Massachusetts	$35.8	7.0%
4	New Jersey	$27.9	5.5%
5	**Illinois**	**$26.6**	**5.2%**
6	Florida	$17.8	3.5%
7	Pennsylvania	$17.7	3.5%
8	Connecticut	$17.5	3.4%
9	Michigan	$16.2	3.2%
10	Ohio	$15.0	2.9%
Range: New York ($76.6 billion—15.0%) to Wyoming ($1.0 billion--0.2%)			

Chart 11 compares the bond ratings for the same ten states listed in Table 7. Some states have been downgraded over 2002. New Jersey was downgraded one level by all three ratings agencies from AA+ (Aa1) down to AA (Aa2). Four other states have been downgraded, but each one was downgraded only one level by one rating agency:

Colorado	S&P	AA to AA-
Wisconsin	S&P	AA to AA-
North Carolina	Moody's	Aa1 to Aa2
Washington	Fitch	AA+ to AA

CHART 11



*States selected were the top ten States in Government Debt Outstanding in 1999 as a percentage of total US debt. [SOURCE: State Rankings 2002]

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):

- <u>Economic factors</u> (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.

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 June of 2002, the General Assembly passed Public Act 92-0605, a law increasing the Illinois Development Finance Authority's bonding authorization for local governments by $200.0 million and for general purposes by $800.0 million. The IDFA prepared a deal for health care providers to pledge their Medicaid accounts receivables from the State for a 96%-99% return in cash up front to pay their bills. The IDFA would sell short-term commercial paper on the market and then pay it off with the pledged monies when they were finally received from the State. As of November 2002, the deal was still awaiting the approval of the Comptroller.

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.

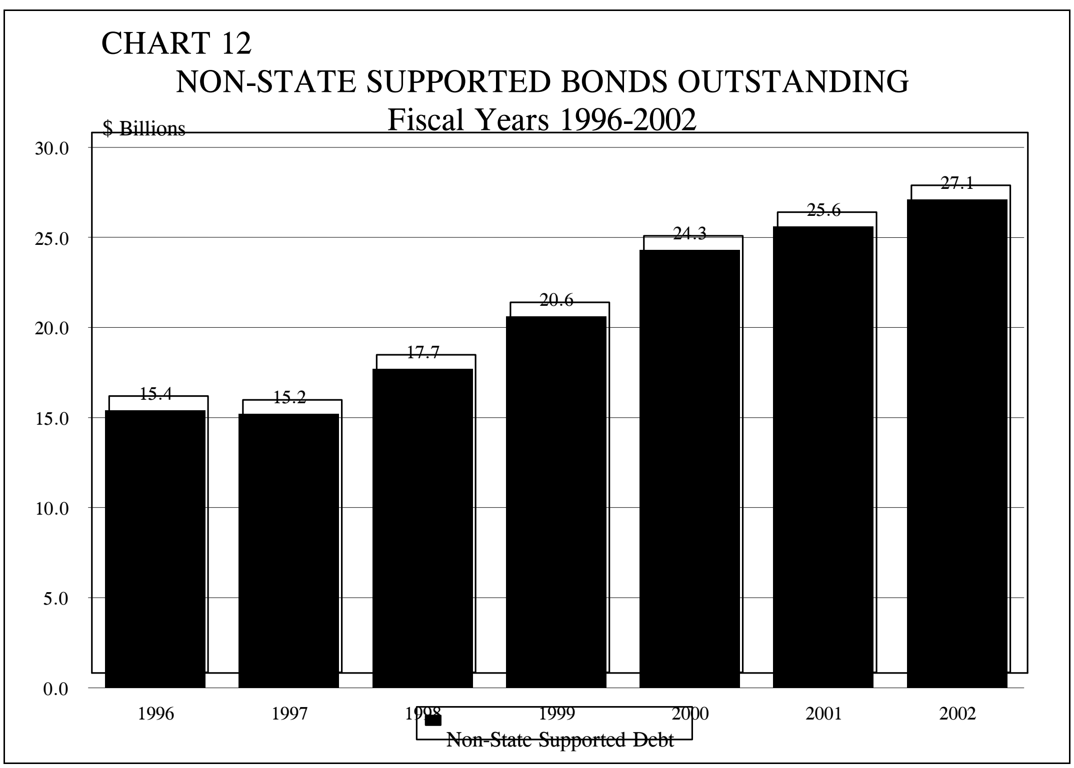


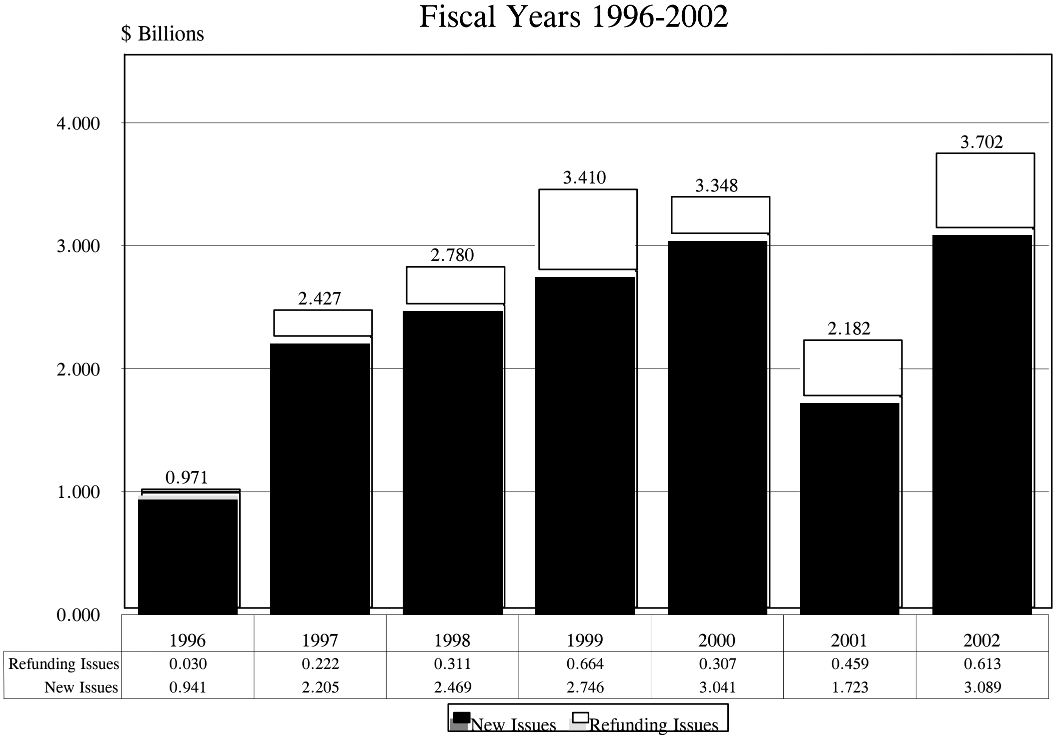
TABLE 8: NON-STATE SUPPORTED DEBT Bonding Authorities ($ in Millions)		
	Kind of Debt	FY 2001 Principal Outstanding
IL Development Finance Authority	Conduit	$7,478.3
IL Educational Facilities Authority	Conduit	2,666.9
IL Farm Development Authority	Conduit	89.5
IL Health Facilities Authority	Conduit	9,416.2
IL Housing Development Authority	User Charge and Moral Obligation	1,904.5
IL Rural Bond Bank	Conduit and Moral Obligation	93.0
IL State Toll Highway Authority	User Charge	781.4
IL Student Assistance Commission	User Charge	2,601.1
Quad Cities Regional Economic Development Authority	Conduit and Moral Obligation	33.3
Regional Transportation Authority (non SCIP)	Conduit	442.0
Southwestern IL Development Authority	Conduit and Moral	241.8
State Universities Retirement System	User Charge	7.3
Upper IL River Valley Devlpt. Authority	Conduit	57.4
Will Kankakee Regional Devlpt. Authority	Conduit	36.6
State Universities	User Charge	1,265.3
TOTAL, NON-STATE SUPPORTED DEBT		**$27,114.6**
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. Bond Issuance increased again in FY 2002 by 69.7% to the level of \$3.702 billion. New debt issues increased \$1.366 billion, or 79.3% from the FY 2001 level of \$1.723 billion to \$3.089 billion in FY 2002. Refunding issues increased to \$613.1 million in FY 2002, an increase of \$154.3 million, or 33.6%, from the FY 2001 level of \$458.8 million.

CHART 13 NON-STATE SUPPORTED BOND ISSUES
Fiscal Years 1996-2002



	1996	1997	1998	1999	2000	2001	2002
Refunding Issues	0.030	0.222	0.311	0.664	0.307	0.459	0.613
New Issues	0.941	2.205	2.469	2.746	3.041	1.723	3.089

Note that Refunding issues continue to increase, which has become an important issue during the current economic climate. With lower interest rates, several bonding authorities have plans for refunding in FY 2004. 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.

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