ILLINOIS ECONOMIC
AND
FISCAL COMMISSION

FY 2002 LEGISLATIVE CAPITAL PLAN ANALYSIS

MARCH, 2001
703 STRATTON BUILDING
SPRINGFIELD, ILLINOIS 62706

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FY 2002 LEGISLATIVE CAPITAL PLAN

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INTRODUCTION

State statutes require the Bureau of the Budget to prepare and submit an assessment of the State's capital needs both current and five years forward (20 ILCS 3010/1). This is presented as part of the Governor's Budget. The Illinois Economic and Fiscal Commission, in turn, is required to submit a 5-year capital plan analysis based on this information.

The Capital Plan Analysis is divided into two sections. The first part of the report uses the Governor's five-year capital expenditure plan, which lists projects to be funded from the FY 2002 appropriation request. This analysis is based on what is contained in the budget book and the expenditure plan. It is used as a basis for looking at the Governor's project priorities and should provide insight into what can be expected to occur if the Governor's budget recommendation is approved.

The second part of the report looks at what is contained in the capital portion of the Governor's FY 2002 recommended budget. It details the amount of additional General Obligation and Build Illinois bond authorization requested, the level of proposed bond sales, future debt issuance, and annual debt service. This report also shows the Governor's recommended appropriations for State capital needs.

EXECUTIVE SUMMARY

- Approximately $4.621 billion in new appropriations is requested for the FY 2002 Capital Plan, made up of Bond, Revenue and Federal/Trust funds. This is a 1.2% decrease over the FY 2001 new appropriations levels of $4.677 billion.

- Approximately $1.465 billion, or 45.3%, of the $3.233 billion requested for the Capital Development Board for FY 2002 represents new appropriations for the renovation or construction of facilities.

- Of the $30.5 million from the Tobacco Settlement Recovery Fund, $10.0 million will be used for Northwestern University's Venture TECH Program and $20.5 million for various local Venture TECH Programs.

- From the Build Illinois Bond Fund, the Governor would appropriate $125.0 million in FY 2002 (and plans to appropriate an additional $125.0 million in FY 2003) to the Illinois Community College Board for the enhanced construction program that will allow for the construction of facilities at the State's 48 community colleges. This is in addition to the $9.1 million lump sum to be spent on capital renewal projects throughout the community college system.

- The Governor is requesting $725.5 million in additional general obligation authorization, which would bring the total G.O. bond authorization (excluding refunding) to $14.923 billion, a 5.1% increase over the current authorization level.

- Also requested in FY 2002 is an increase of $430.0 million for the Build Illinois program, including $80.8 million for infrastructure and transportation; $25.0 million for economic development; and $324.2 million for educational, scientific and technological facilities development and the expansion of health and human services. This proposed increase in authorization from $2.852 billion to $3.282 billion represents a 15.1% increase.

- FY 2002 general obligation and Build Illinois bond sales will be $1.5 billion and $200.0 million, respectively for projects. For G.O. bond sales this represents an increase of $200.0 million from estimated FY 2001 G.O. bond sales of $1.3 billion. The Build Illinois bond sales of $200.0 million are an increase of $75.0 million from estimated FY 2001 sales of $125.0 million.

- It is estimated that G.O. debt service will grow by $85.0 million in FY 2002 to a total of $875.0 million, of which $472.7 million is for principal payments and $402.3 million is for interest.

- In FY 2002 new appropriations from general obligation bond funds will total $1.821 billion and reappropriations of $2.889 billion, which represent a decrease in new appropriations of $72.2 million and an increase in reappropriations levels of $297.8 million from current FY 2001 levels.

FY 2002 RECOMMENDED CAPITAL PROJECTS

This section of the report is based on the Governor's five-year capital expenditure plan. The capital projects are paid from several sources, such as bond funds, various revenue funds, and Federal/Trust funds. Bond funds used for FY 2002 include: Build Illinois, Capital Development, School Construction, Anti-Pollution, Coal Development, Civic Center, and Transportation A and B funds. The FY 2002 budget request for the capital program includes new appropriations of $4.621 billion and reappropriations of $6.292 billion, for a total of $10.913 billion. The projects in this section are only those for which a new appropriation is being sought (i.e. re-appropriations are not discussed). The following table is a breakout of the amount of new appropriations by fund type:

TABLE 1: CAPITAL PROGRAMS
NEW APPROPRIATIONS
($ in Millions)

Fund Type	New Appropriations
Bond	$2,162.6
Revenue	2,312.8
Federal/Trust	145.8
TOTAL	**$4,621.2**

Approximately $4.621 billion, or 42.3%, of the $10.913 billion requested for FY 2002 represent new appropriations for renovation or construction projects. The current FY 2001 new appropriations are $4.677 billion, 44.9% of the $10.418 billion total capital appropriation request.

The budget request for appropriations to the Capital Development Board for capital projects, including new appropriations and reappropriations, totals $3.233 billion. Approximately $1.465 billion, or 45.3%, of the $3.233 billion requested for the CDB for FY 2002 represent new appropriations from the funds listed in Table 2. This amount is passed through the Board to specific agencies for the renovation or construction of facilities. The remainder of the Governor's requested $4.621 billion in new appropriations would be appropriated directly to specific agencies.

The current FY 2001 CDB budget is $2.888 billion, with $1.197 billion in new appropriations. The current FY 2001 CDB appropriations include $70.4 million in General Revenue funding, of which $22.0 million is for new appropriations.

TABLE 2: CAPITAL DEVELOPMENT BOARD NEW APPROPRIATIONS ($ in Millions)	
Fund Type	New Appropriations
Capital Development	$627.9
School Construction	500.0
School Infrastructure	0.0
General Revenue	12.0
Build Illinois	295.0
Asbestos Abatement	0.0
Tobacco Settlement	30.5
TOTAL	**$1,465.4**

Some of the appropriation requests for these projects represent the entire cost of the project; for others, however, only a portion of the total amount recommended is expected to be spent in FY 2002 (See Table 3, page 9). The costs of recommended projects are listed below, in $1.0 million increments, as the required appropriations in FY 2002 and the total required appropriations through FY 2006.

Listed below are selected new capital projects, by agency:

Agriculture

The Governor's capital budget request of $9.9 million for the Department of Agriculture includes $4.8 million in new appropriations for FY 2002 from the Capital Development Fund. The plan recommends $12.6 million in long-term expenditures, including $4.3 million from the Build Illinois Fund. The three largest projects for the Department of Agriculture include:

Programs ($ millions)	FY 2002	Total
• Conservation 2000 Program	$1.4	$2.8
• DuQuoin State Fairgrounds: shell over show horse arena	0.3	2.7
• Renovate grandstand area at State Fairgrounds	0.1	1.1
• Renovate comfort stations at State Fairgrounds	0.1	1.1

Capital Development Board (CDB)

The Governor is requesting $230.1 million for the Capital Development Board. CDB oversees various statewide maintenance programs that affect more than one agency. In these cases, the entire appropriation is made to the CDB. In the Governor's request for FY 2002, $217.0 million of the CDB's total would go to fund "Local Projects". The local projects delineated below would be funded with $42.7 million from the Capital

Development Fund, $143.9 million from the Build Illinois Fund, and $30.5 million from the Tobacco Settlement Recovery Fund. Of the Tobacco Settlement Recovery Fund, $10 million would be used for Northwestern University's Venture TECH Program and $20.5 million for various local Venture TECH programs. (Venture TECH is a $1.9 million program to invest in education and advanced research and development, health sciences and biotech technologies, and cutting-edge information technology programs.)

Local Projects ($ millions)	FY 2002	Total
• Venture TECH: Various projects	$3.0	$42.7
• Venture TECH: Northwestern University	4.5	10.0
• Venture TECH: Various projects	1.4	20.5
• Chicago Field Museum	18.0	40.0
• University of Chicago: Juvenile Diabetes Center	4.1	9.0

The remaining amounts requested for the CDB include $8.8 million from the Capital Development Fund and $4.2 million from General Revenue Funds for "Other Programs" listed below. The GRF portion would be used for demolishing structures, as well as conducting asbestos abatement.

Other Programs ($ millions)	FY 2002	Total
• Comply with Americans with Disabilities Act	$0.0	$4.0
• Retrofit/upgrade refrigeration equipment	0.0	1.7
• Abate hazardous materials	0.0	2.1
• Building maintenance at the Executive Mansion	0.1	0.6

Central Management Services (CMS)

Of the Governor's recommendation of $5.4 million, most of the funds for CMS are earmarked for projects, which include $165,000 and $1.2 million from the Build Illinois Fund and the General Revenue Fund, respectively. Some projects for Central Management Services include:

Programs ($ millions)	FY 2002	Total
• Upgrade the James Thompson center's mechanical systems	$0.1	$1.4
• Upgrade the IL Center for Rehabilitation and Education, Chicago	1.0	2.0
• Suburban North Regional Office: rehab exterior/upgrade atrium	0.1	1.0

Commerce and Community Affairs (DCCA)

The total FY 2002 capital budget request for DCCA includes $33.5 million: $25.0 million from the Build Illinois Fund, $2.5 million from the Capital Development Fund, and $6.0 million from the Coal Development Fund.

Programs ($ millions)	FY 2002	Total
• Prime Sites Program	$0.0	$25.0
• Statewide coal development projects	0.6	6.0

Corrections

Under the Governor's plan, the Department of Corrections would receive $182.2 million in new appropriations, mostly from CDF. Of that amount, $136.0 million would be spent on construction with the remaining amount spent statewide on various additions, rehabilitation and upgrades. The following projects at Correctional Centers (CC) and Youth Centers (YC) are also to be funded:

Programs ($ millions)	FY 2002	Total
• Construct medium security correctional center	$5.1	$73.0
• Southern Illinois Youthful Offenders facility	1.1	11.0
• Harrisburg YC: construct vocational & medium confinement	0.7	10.3

Environmental Protection Agency (EPA)

The Environmental Protection Agency would receive $19.0 million from the Anti-Pollution Bond Fund and $12.0 million from the Build Illinois Fund. The following EPA projects would be funded:

Programs ($ millions)	FY 2002	Total
• Wastewater treatment program	$1.3	$12.0
• Drinking water program	0.7	7.0
• Brownfields Program	1.2	12.0

Board of Higher Education (BHE)

The FY 2002 budget submitted by the Governor recommends $340.6 million in new CDF capital appropriations to BHE. The composition of BHE's capital budget is slightly different from that of the other State agencies. Portions of higher education's maintenance projects are funded through a Capital renewal program, which allocates amounts statewide to the various State universities and the Illinois Community College Board. For FY 2002, the Governor's budget includes $20.0 million and $10.0 million from the Capital Development Fund and the Build Illinois Fund, respectively, to BHE for capital renewal (repair and maintenance).

The remaining $141.9 million of new appropriations requested are allocated for specific projects. From the Build Illinois Bond Fund, the Governor would appropriate $125.0 million in FY 2002 (and plans to appropriate an additional $125.0 million in FY 2003) to the Illinois Community College Board for the enhanced construction program that will allow for the construction of facilities at the State's 48 community colleges. This is in addition to the $9.1 million lump sum to be spent on capital renewal projects throughout the community college system.

Programs ($ millions)	FY 2002	Total
• IL Community College Board: enhanced construction program	$8.8	$125.0
• Statewide: various digitalization projects	1.7	4.9
• CSU: library building	1.6	16.0
• EIU: renovate and expand Fine Arts Center	2.8	40.0
• NIU: remodel/expand buildings C, E & F	0.9	9.1
• U of I: Siebel computer science building	3.2	32.0
• UIS: classroom office building	2.1	30.0
• Venture TECH: various projects	6.3	90.5

Historic Preservation Agency (HPA)

The Governor is recommending a total of $54.5 million in new appropriations for HPA in FY 2002, $53.4 million from CDF, $0.2 million from the Build Illinois Fund, and $0.9 million from general revenues. The three largest projects recommended for funding in FY 2002 are:

Programs ($ millions)	FY 2002	Total
• Construct Abraham Lincoln Presidential Library	$12.5	$50.0
• Shawneetown Bank Historic Site: rehab exterior	0.2	1.6
• Bishop Hill Historic Site, Henry County: restoration	0.1	1.0

Human Services

The Governor is recommending $26.0 million in new capital appropriations for the Department of Human Services from the Capital Development ($24.3 million), Build Illinois ($1.0 million) and General Revenue ($0.7 million) funds. The majority of the funds will be used for maintenance and renovation projects at State Mental Health Centers (MHC) and Developmental Centers (DC), with the largest amounts going for the following:

Programs ($ millions)	FY 2002	Total
• Mabley DC: renovate residential buildings	$0.2	$1.9
• Shapiro DC: replace water main & valve (Phase II)	0.2	1.9
• Alton MHC: complete forensics center	0.4	3.9
• Alton MHC: treatment & detention facility	0.4	4.0
• Fox DC: replace interior doors & flooring/repair walls	0.2	2.2

Judicial Branch

The FY 2002 Capital Program calls for $0.7 million in spending for judicial branch needs, including $547,000 from CDF and $191,600 from general revenues. The major projects proposed include improvements at the Second Appellate Court in Elgin and the Third Appellate Court in Ottowa.

Medical District Commission

The Governor's FY 2002 budget recommends a total of $1.5 million in appropriations for the Medical District Commission from the Capital Development Fund. The funds will be used at the Medical Center District in Chicago for the following:

Programs ($ millions)	FY 2002	Total
• Purchase of land and site improvements	$0.4	$4.0
• Utility improvements	0.1	0.8
• Upgrade research center	0.1	0.7

Military Affairs (DMA)

The Governor is requesting $15.1 million for the Department of Military Affairs, including $13.7 million in Capital Development Fund (CDF) appropriations, and $1.3 million in Build Illinois Funds for rehabilitation and renovation of DMA facilities. The Governor's recommended FY 2002 budget includes the following programs:

Programs ($ millions)	FY 2002	Total
• Kewanee Armory: renovate the mechanical system	$0.1	$2.1
• Northwest Armory, Chicago: replace mechanical systems	0.2	3.0
• Rock Falls Armory: replace mechanical/electrical systems	0.2	2.6

Natural Resources

The Department of Natural Resources would receive $19.2 million in new appropriations under the Governor's capital plan, including $15.2 from the Capital Development Fund, $2.5 million in Build Illinois Funds, and $1.6 million from GRF.

Programs ($ millions)	FY 2002	Total
• Statewide Open Land Trust Program	$10.0	$40.0
• Statewide Museums Improvement Program grants	2.5	10.0
• Statewide Conservation 2000 Program	2.0	5.3
• Lake Michigan shoreline protection	2.0	7.0
• Statewide lodge maintenance	0.4	5.6

Department of Revenue

The Governor is requesting $9.3 million in new capital appropriations for the Department of Revenue in FY 2002. The appropriations would pay for several projects at the Willard Ice Building: complete upgrade of plumbing system, parking deck structural repairs, repair of the interior & HVAC, and upgrade of fire and voice-activated alarm system.

Secretary of State

A total of $16.2 million in new appropriations from the CDF and the Build Illinois Fund is recommended for the Secretary of State. The four projects recommended for funding in FY 2002 are:

Programs ($ millions)	FY 2002	Total
• Statewide renovation & upgrade various facilities	$0.2	$2.3
• Capital Building: complete HVAC upgrade (Phase I)	0.5	7.0
• Capital Complex: complete stone restoration (Phase II)	0.3	3.0
• William G. Stratton Building: complete electrical upgrade	0.0	4.2

State Board of Education

The largest single program to receive new appropriations in FY 2002 is the $500.0 million in statewide grants for facility construction funded from the School Construction Fund.

State Police

The Governor is requesting $49.3 million for the State Police. The two largest projects recommended for FY 2002 are:

Programs ($ millions)	FY 2002	Total
• Central Admin. Bldg., Spfld.: construct central office building	$4.7	$47.0
• Statewide upgrade/rehabilitation of firing ranges/bldgs.	0.2	2.0

Transportation (IDOT)

The Governor has approved $400.0 million and $149.0 million in new appropriations for IDOT from the Transportation Series "A" Bond Fund and the Transportation Series "B" Bond Fund, respectively.

Programs ($ millions)	FY 2002	Total
• Highways	$72.0	$400.0
• Mass transit grants to RTA	0.0	91.0
• Statewide grants for aeronautics	0.5	33.0
• Statewide grants for rails	2.0	20.0
• Downstate mass transit grants	0.0	5.0

Veterans' Affairs

The Governor's budget requests $6.2 million in new capital appropriations for the Department of Veterans' Affairs from the Capital Development Fund ($0.2 million), the Build Illinois Fund ($3.5 million), and the General Revenue Fund ($2.5 million). The three largest projects for Veteran Affairs include:

Programs ($ millions)	FY 2002	Total
• Manteno VA facility: construct equipment storage building	$0.2	$2.5
• Manteno VA facility: install dehumidifiers/humidifiers	0.2	1.5
• LaSalle VA facility: plan expansion	0.1	1.0

TABLE 3: GENERAL OBLIGATION BOND FUNDS

CAPITAL EXPENDITURE PLAN

FY 2002

($ in Millions)

Fund	Approp. FY 2002	Spending from FY 2002 Appropriation				
		FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Total, All Funds	**$4,708.8**	**$1,501.0**	**$1,486.2**	**$1,026.1**	**$510.8**	**$162.2**
New Appropriations	1,820.1	314.8	669.4	518.8	198.1	106.1
Reappropriations	2,888.7	1,186.2	816.8	507.3	312.7	56.1
Capital Development	**$2,324.4**	**$600.0**	**$672.5**	**$561.5**	**$380.4**	**$110.0**
New Appropriations	745.5	87.3	247.5	211.5	130.4	68.8
Reappropriations	1,578.9	512.7	425.0	350.0	250.0	41.2
School Construction	**$972.4**	**$450.0**	**$397.4**	**$125.0**	**0.0**	**0.0**
New Appropriations	500.0	150.0	225.0	125.0		
Reappropriations	472.4	300.0	172.4			
Anti-Pollution	**$90.0**	**$20.0**	**$30.0**	**$33.0**	**7.0**	**0.0**
New Appropriations	19.0	2.0	5.0	10.0	2.0	
Reappropriations	71.0	18.0	25.0	23.0	5.0	
Transportation A	**$744.0**	**$295.0**	**$262.0**	**$167.0**	**$20.0**	**0.0**
New Appropriations	400.0	72.0	175.0	133.0	20.0	
Reappropriations	344.0	223.0	87.0	34.0		
Transportation B	**$532.5**	**$125.0**	**$117.3**	**$133.8**	**$102.4**	**$52.2**
New Appropriations	149.6	2.5	14.9	37.3	44.7	37.3
Reappropriations	383.0	122.5	102.4	96.5	57.7	14.9
Coal Development	**$45.4**	**$11.0**	**$7.0**	**5.8**	**1.0**	**0.0**
New Appropriations	6.0	1.0	2.0	2.0	1.0	
Reappropriations	39.4	10.0	5.0	3.8		

SOURCE: Bureau of the Budget's Five-Year Expenditure Plan for the FY 2002 Budget.

FY 2002 BUDGET BOOK REVIEW

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

Public Act 91-0039 increased general obligation bond authorization to $16.178 billion, an increase of $5.283 billion from $10.895 billion. The new debt will be sold over 7 years, which began in FY 2000, to accommodate anticipated construction schedules. Authorization also was increased twice for the Build Illinois program to fund other infrastructure programs, in 1999 by approximately $755.0 million and in May 2000 by another $61.0 million, for a total authorization of $2.852 billion.

Authorization

The general obligation bond authorization increased one time during FY 1999, from $10.895 billion at the beginning of the fiscal year, to $16.178 billion at the end of the fiscal year. In June of 1999, the Governor signed legislation (P.A. 91-0039) which increased the total authorization by $5.283 billion.

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

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

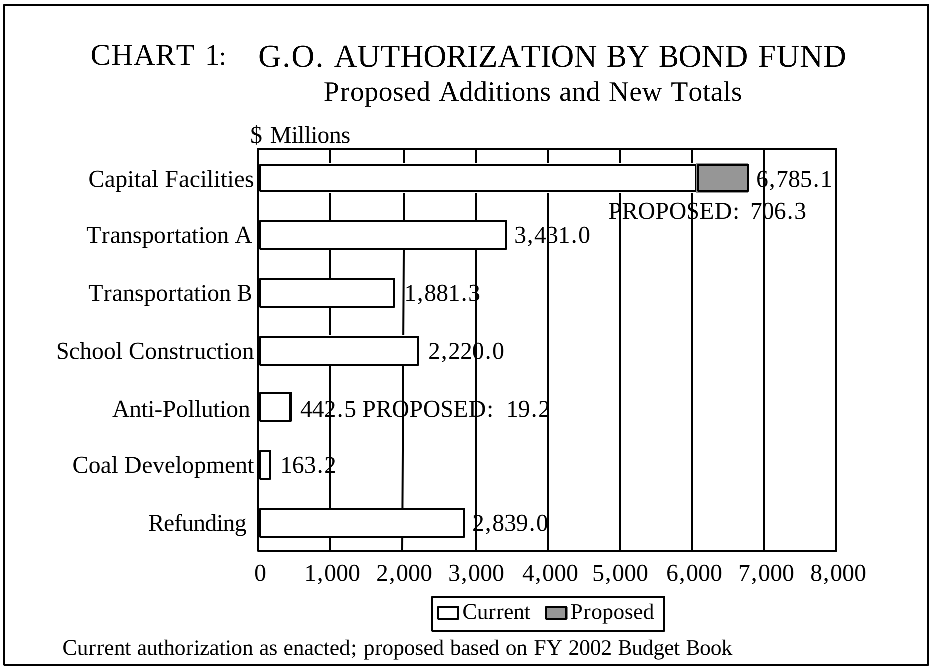
The Governor is requesting $725.5 million in additional general obligation authorization, which would bring the total G.O. bond authorization (excluding refunding) to $14.923 billion, a 5.1% increase over the current authorization level. The additional authorization is requested as follows: $706.3 million in the Capital Facilities category and $19.2 million in the Anti-Pollution category. Table 4 shows the change in general obligation bond authorization leading up to FY 2001 and that proposed for FY 2002.

TABLE 4: RECENT G.O. BOND AUTHORIZATION CHANGES
($ in Millions)

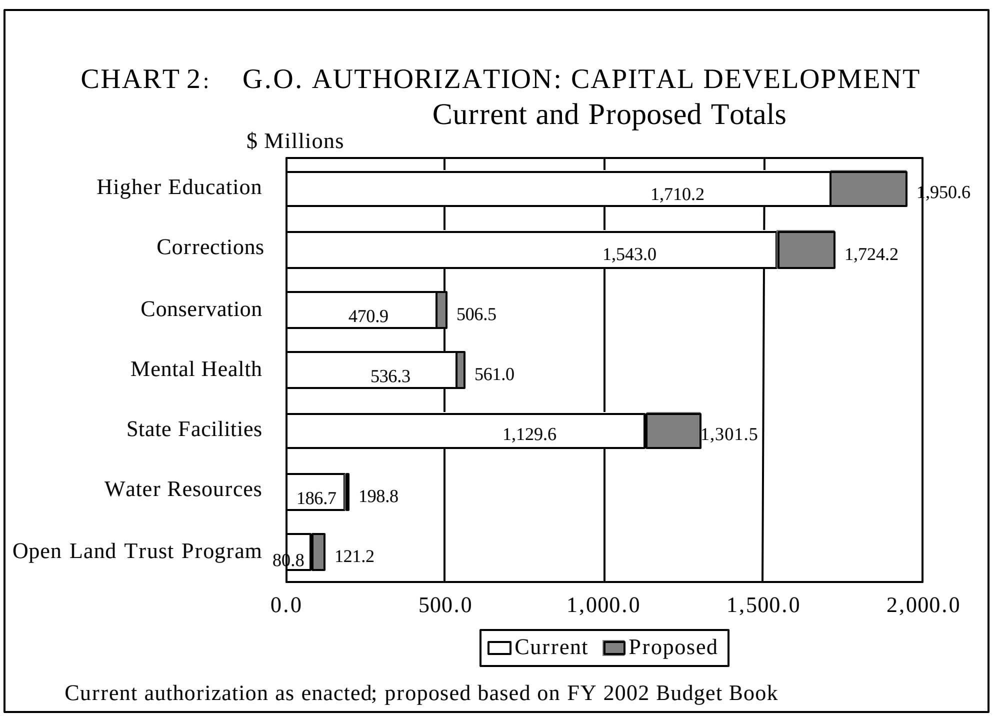
	Initial FY 2000	Increase per P.A. 91-0710	FY 2001	Requested FY 2002	Proposed Increase	% Increase
Capital Facilities	$5,238.2	$840.6	$6,078.8	$6,785.1	$706.3	11.6%
Transportation A	3,431.0	0.0	3,431.0	3,431.0		
Transportation B	1,881.3	0.0	1,881.3	1,881.3		
School Construction	2,220.0	0.0	2,220.0	2,220.0		
Coal Development	163.2	0.0	163.2	163.2		
Anti-Pollution	405.1	18.2	423.3	442.5	19.2	4.5%
Refunding	2,839.0	0.0	2,839.0	2,839.0		
TOTAL G.O. Authority	**$16,177.8**	**$858.8**	**$17,036.6**	**$17,762.1**	**$725.5**	**4.3%**

The proposed increase of $706.3 million in the Capital Facilities category represents an 11.6% increase over the current level of $6.079 billion. The requested $19.2 million increase in the Anti-Pollution authorization represents a 4.5% rise in that category.

Chart 1 on the following page illustrates the Governor's proposed editions and new totals for General Obligation authorization by bond fund.



The Capital Development Fund authorization is broken down into a variety of categories that either specify a type of capital spending or the state agencies for which the funds will be disbursed. Chart 2 shows how the proposed increase of $706.3 million would be allocated.



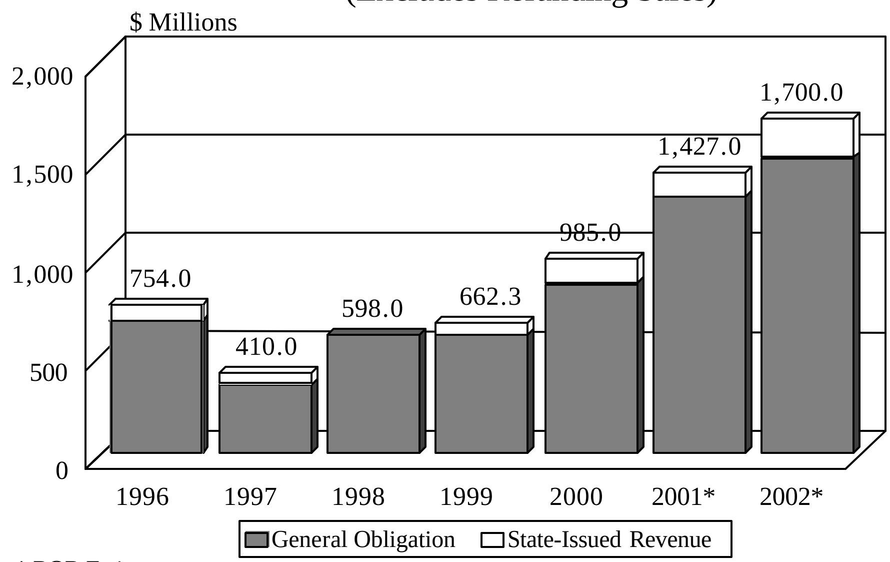
Higher Education would receive $240.4 million of the $706.3 million Capital Development Fund authorization increase, representing a 14.1% increase in that category. Correctional Facilities would receive the next largest increase in authorization, at $181.2 million (11.7% increase). Authorization for State Facilities is to increase by $171.9 million (15.2% increase), for Conservation by $35.6 million (7.6% increase), for the Illinois Open Land Trust Program by $40.4 million (50.0% increase), for Mental and Public Health by $24.7 million (4.6% increase), and for Water Resources by $12.1 million (6.5% increase).

Also requested in FY 2002 is an increase of $430.0 million for the Build Illinois program, including $80.8 million for infrastructure and transportation; $25.0 million for economic development; and $324.2 million for educational, scientific and technological facilities development and the expansion of health and human services. This proposed increase in authorization from $2.852 billion to $3.282 billion is a 15.1% increase.

Bond Sales

For FY 2002, general obligation bond and Build Illinois bond sales of $1.5 billion and $200.0 million, respectively, are anticipated. Chart 3 shows only new money bond sales.

CHART 3: STATE-SUPPORTED BOND SALES
(Excludes Refunding Sales)



* BOB Estimates

To date, $701.9 million in new project general obligation bonds have been sold in FY 2001. The Bureau of the Budget anticipates additional sales of up to $600.0 million of general obligation bonds by the end of FY 2001. The Bureau of the Budget also anticipates sales of up to $125.0 million of Build Illinois Bonds by the end of FY 2001.

Refunding sales for FY 2001 include $50.3 million in Civic Center Bonds sold in September of 2000, and $125.0 million in Build Illinois bonds sold in March of 2001.

The Bureau has proposed sales of $1.5 billion of general obligation bonds for projects in FY 2002. This projected level of bond sales would be 15.4% higher than the estimated level for FY 2001 of $1.3 billion. The Bureau also has proposed sales of $200.0 million of Build Illinois Bonds for projects in FY 2002, 60.0% higher than the previous fiscal year.

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 full and timely payment of the principal and interest on the specific bonds issued. The major ratings agencies including: Moody's, Standard & Poor's, and Fitch, each use their own specific standards and rating scales to develop a state's bond rating. They base their state ratings on four main factors (information supplied by Standard & Poor's):

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

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

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

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

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

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

Standard & Poor's affirmed its AA rating but revised its outlook upward on the State's credit from stable to positive, citing "a deep and diversified economy, an improving financial condition, moderate debt levels," and State cash balances that were $1.351 billion at the end of Fiscal Year 1999(the highest in the State's history).

In June of 2000, Fitch, Inc., which has long maintained an AA rating on the State's general obligation bonds, upgraded the State's bond rating from AA to AA+ citing the return of "fiscal stability, the larger balances carried by the State in recent years and the creation of a reserve account" in this legislative session. Fitch also stated that "the planned bonding is well within the state's capacity; if authorized but unissued bonds, including Build Illinois, are added to outstanding debt, the total would equal about 4.3% of personal income, a moderate level". Fitch raised the State's Build Illinois Bond Rating to AA+ at the end of February 2001.

ILLINOIS				Maximum Rating Possible
Rating Agencies	July 1997	June 1998	June 2000	
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 Service

Based on expected general obligation bond sales, debt service for the capital program is expected to increase from $790.0 million in FY 2001 to $875.0 million in FY 2002. The estimated $85.0 million increase would represent an increase of 10.8% in debt service payments. As shown in Chart 4, the estimated $875.0 million would be comprised of an estimated $472.7 million in payments on principal and $402.3 million in payments on interest. In FY 2001, the estimated $790.0 million in debt service includes $453.9 million in principal payments and $336.1 million in interest payments.

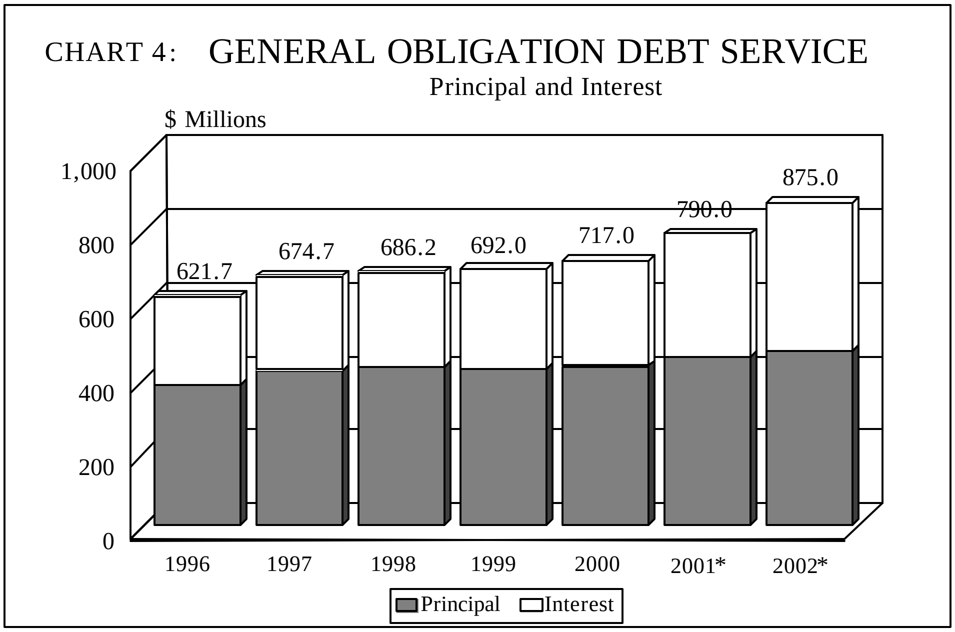
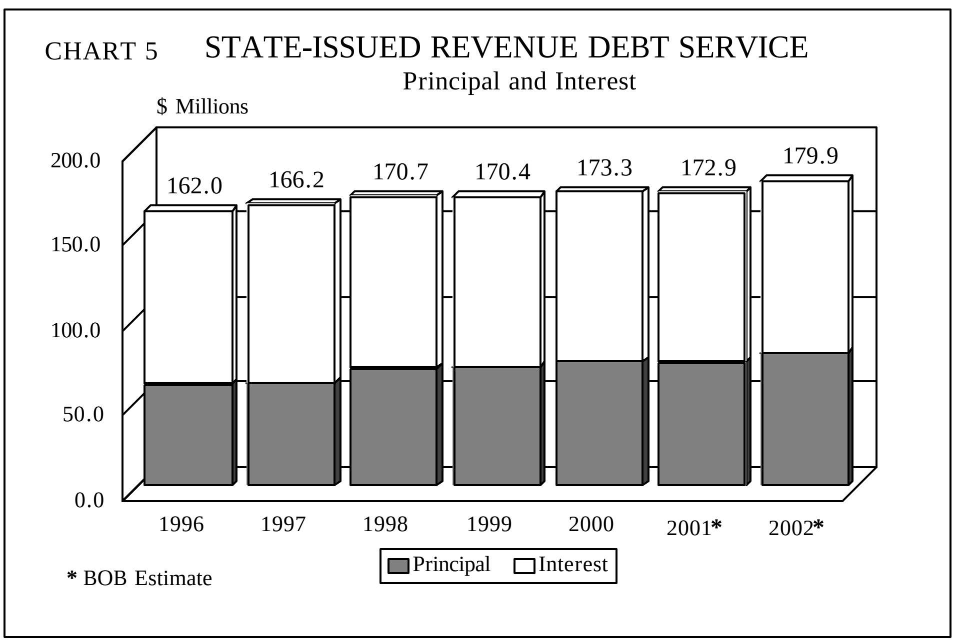


Chart 5 shows debt service for Build Illinois and Civic Center bonds. FY 2001 debt service will be approximately $172.9 million, a decrease of 0.2% from the FY 2000 level of $173.3 million. FY 2002 is estimated to be $179.9 million, an increase of 4.0% over the FY 2001 level.



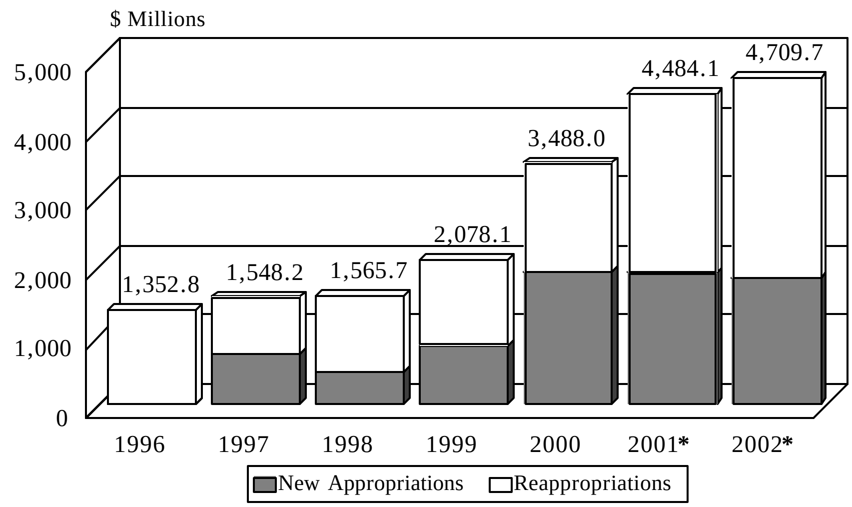
Including the March 2001 Build Illinois refunding bond sale, FY 2001 debt service for Build Illinois bonds is expected to be $165.1 million, comprised of $73.0 million in principal payments and $92.1 million in interest. FY 2002 Build Illinois debt service payments are estimated to be $166.0 million, of which $73.1 million will be for principal payments and $93.0 million for interest payments.

Debt service for Civic Center bonds in FY 2001 will total $13.9 million with the principal portion equaling $6.0 million and interest payments equaling $7.9 million. Civic Center bonds debt service payments for FY 2002 will be approximately $13.8 million, comprised of $5.6 million in principal and $8.2 million in interest.

Appropriations

The FY 2002 budget book contains requests for capital appropriations from general obligation bond funds totaling $4.710 billion. The total includes $1.821 billion in new general obligation appropriations and $2.889 billion in re-appropriations, which represent a $72.2 million decrease in new appropriations and a $297.8 million increase in re-appropriations from the FY 2001 levels. The total appropriations requested from general obligation bond funds for FY 2002 represent an increase of $225.7 million, 5.0%, over FY 2001. The annual appropriations from FY 1996 to the recommended FY 2001 and FY 2002 amounts are illustrated in Chart 6.

CHART 6: GENERAL OBLIGATION APPROPRIATIONS
Fiscal Years 1996 - 2002

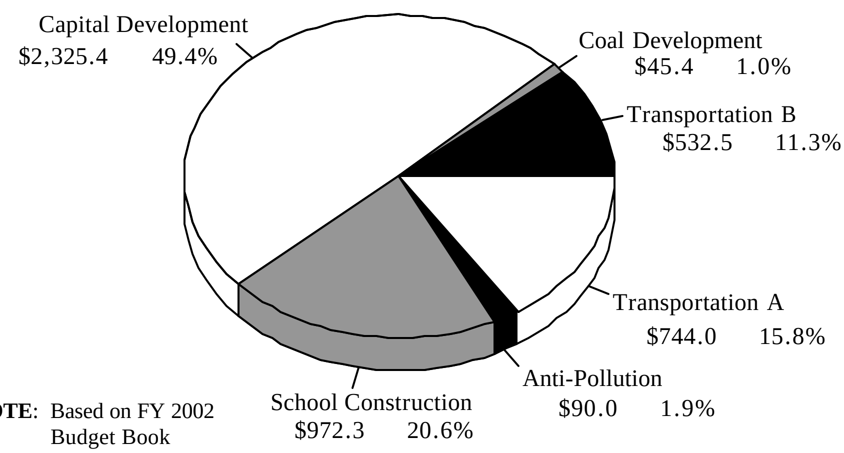


*FY 2001 as enacted; FY 2002 based on budget book

The State began FY 2001 with a general obligation bond authorization level, excluding refunding, of $14.197 billion. A total of $6.806 billion in bond authorization, excluding refunding authorization, remains unissued. The Governor is requesting $725.5 million in additional general obligation bond authorization, which would bring the total G.O. bond authorization, excluding refunding, to $14.923 billion, a 5.1% increase over the current authorization level.

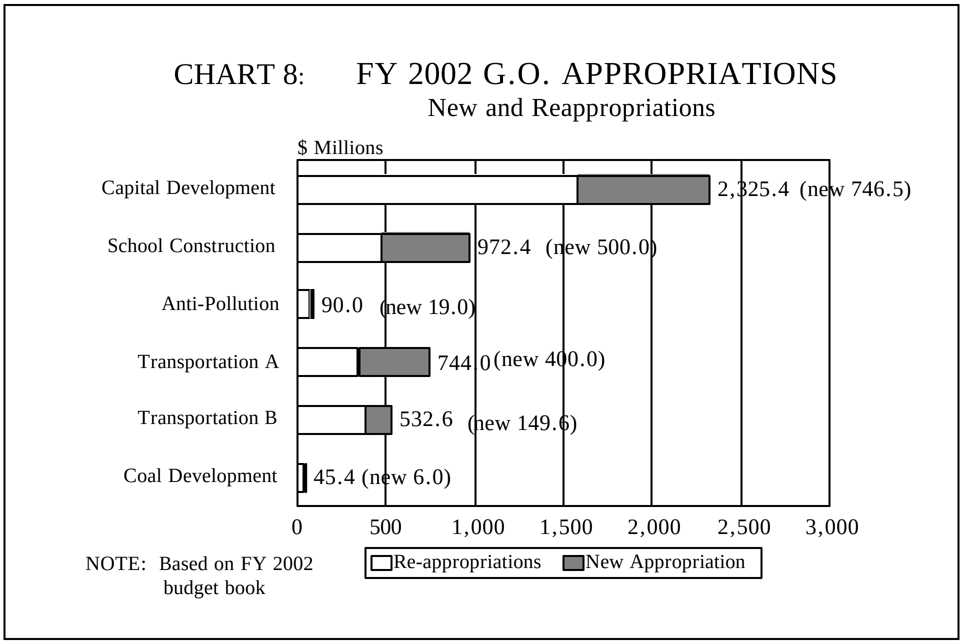
Charts 7 and 8 provide additional information on the requested general obligation appropriations for FY 2002 broken down by bond fund. Chart 7 shows the approximate percentages each bond fund represents of the total appropriation request (includes both new and re-appropriations). As shown in this chart, the $2.325 billion for Capital Development comprises 49.4% of the total. School Construction funds would become the second largest segment of general obligation appropriations, funded at $972.3 million, or 20.6% of the total. The $532.5 million for Transportation B funds would account for 11.3% of the total annual appropriations. Transportation A funds account for $744.0 million, or 15.8% of the total. Anti-pollution and Coal Development appropriations would represent $90.0 million (1.9%) and $45.4 million (1.0%), respectively.

CHART 7: FY 2002 G.O. APPROPRIATIONS
By Bond Fund ($ in Millions)
Total: $4,709.6 Million = 100%



NOTE: Based on FY 2002 Budget Book

Chart 8 shows the requested appropriations broken down by categories into new and re-appropriations. The Governor's FY 2002 budget requests new bond fund appropriations totaling $1.821 billion for all general purpose categories. New appropriations would be highest for Capital Development ($746.5 million) and School Construction ($500.0 million). Transportation A and Transportation B categories would receive new appropriations of $400.0 and $149.6 million, respectively. The Anti-Pollution category would receive $19.0 million in new appropriations, and the Coal Development category would receive $6.0 million.



The FY 2002 Capital appropriations request from Build Illinois and Civic Center bond funds equals $770.5 million, made up of $341.4 million in new appropriations and $429.1 million in reappropriations. The total appropriations request for FY 2002 from these bond funds is a $79.6 million, or 11.5% increase from the FY 2001 level of $690.9 million.

The Governor's proposed budget includes an appropriation to the Bureau of the Budget in the amount of $1.0 million for costs of issuance associated with the general obligation bond program (to be paid from the Capital Development Bond Fund). The Bureau of the Budget would also receive an appropriation totaling $425,000 from the Build Illinois Bond Fund for costs of issuance relating to Build Illinois bonds. FY 2002 appropriations for the costs associated with bond issuance increased from their FY 2001 levels of $600,000 (66.7%) for Capital Development and $350,000 (21.4%) for Build Illinois.

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