ILLINOIS ECONOMIC
AND
FISCAL COMMISION

FY 2003 LEGISLATIVE CAPITAL PLAN ANALYSIS

MARCH, 2002
703 STRATTON BUILDING
SPRINGFIELD, IL 62706

Illinois Economic and Fiscal Commission

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INTRODUCTION

State statute requires 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 2003 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 2003 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 $3.999 billion in new appropriations is requested for the FY 2003 Capital Plan, made up of Bond, Revenue and Federal/Trust funds. This is a 23.8% decrease over the FY 2002 new appropriations levels of $5.246 billion.

- Approximately $508.5 million, or 17.4%, of the $2.917 billion requested for the Capital Development Board for FY 2003 represents new appropriations for the renovation or construction of facilities.

- This is the sixth and final year of a $2.1 billion school construction program with new appropriations of $70.0 million in statewide grants for facility construction from the School Construction Fund.

- From the Build Illinois Bond Fund, the Governor would appropriate $50.0 million in FY 2003 to the Illinois Community College Board. This will be the second year of a five-year $250.0 million enhanced construction program that will allow for the construction of facilities at the State's 47 community colleges.

- The Governor is requesting $708.0 million in additional general obligation authorization, which would bring the total G.O. bond authorization (excluding refunding) to $15.973 billion, a 4.6% increase over the current authorization level.

- Also requested in FY 2003 is an increase of $145.0 million for the Build Illinois program. This proposed increase in authorization from $3.541 billion to $3.686 billion represents a 4.1% increase.

- FY 2003 general obligation and Build Illinois bond sales are estimated to be $1.7 billion and $200.0 million, respectively for projects. For G.O. bond sales this represents an increase of $200.0 million from estimated FY 2002 G.O. bond sales of $1.5 billion. The Build Illinois bond sales of $200.0 million are an increase of $50.0 million from estimated FY 2002 sales of $150.0 million.

- It is estimated that G.O. debt service will grow by $128.2 million in FY 2003 to a total of $982.0 million, of which $519.8 million is for principal payments and $462.2 million is for interest.

- In FY 2003 new appropriations from general obligation bond funds will total $1.251 billion and reappropriations of $3.732 billion, which represent a decrease in new appropriations of $624.8 million and an increase in reappropriations levels of $541.0 million from current FY 2002 levels.

FY 2003 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 2003 include: Build Illinois, Capital Development, School Construction, Anti-Pollution, Coal Development, and Transportation A and B funds. The FY 2003 budget request for the capital program includes new appropriations of $3.999 billion and reappropriations of $8.388 billion, for a total of $12.387 billion. The projects in this section are only those for which a new appropriation is being sought (i.e. reappropriations are not discussed). The following table is a breakout of the amount of new appropriations by fund type:

TABLE 1: FY 2003 CAPITAL PROGRAMS NEW APPROPRIATIONS
($ Millions)

Fund Type	New Appropriations
Bond	$1,435.0
Revenue	2,420.4
Federal/Trust	144.1
TOTAL	**$3,999.5**

Approximately $3.999 billion, or 32.3%, of the $12.387 billion requested for FY 2003 represent new appropriations for renovation or construction projects. The current FY 2002 new appropriations are $5.246 billion, 42.7% of the $12.290 billion total capital appropriation request.

Of the Revenue funding appropriations for capital projects, the amount of General Revenue funding requested for FY 2003 equals $118.8 million, half of which would come from new appropriations. The FY 2002 General Revenue appropriations equaled $142.4 million, of which $69.3 million came from new appropriations.

The budget request for appropriations to the Capital Development Board for capital projects, including new appropriations and reappropriations, totals $2.917 billion. Approximately $508.5 million, or 17.4%, of the request for FY 2003 represents 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 remaining $3.491 billion in new appropriations would be appropriated directly to specific agencies.

The current FY 2002 CDB budget is $3.406 billion, with $1.348 billion in new appropriations. Of this amount, $33.2 million came from the General Revenue Fund, all as reappropriations.

TABLE 2: FY 2003 CAPITAL DEVELOPMENT BOARD NEW APPROPRIATIONS ($ Millions)	
Fund Type	New Appropriations
Capital Development	$355.5
School Construction	70.0
School Infrastructure	0.0
General Revenue	0.0
Build Illinois	83.0
Asbestos Abatement	0.0
Tobacco Settlement	0.0
TOTAL	**$508.5**

CAPITAL PROJECTS BY AGENCY

Listed below are selected new capital projects, by agency. The costs are listed in $1.0 million increments, as the required appropriations in FY 2003 and the total required appropriations through FY 2007. 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 will be spent in FY 2003 (See Table 3, page 9).

Agriculture

The Governor's capital budget request of $10.6 million in new appropriations for the Department of Agriculture includes $7.4 million from the Capital Development Fund and $3.2 million from the Build Illinois Fund. The five largest projects for the Department of Agriculture include:

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• Conservation 2000 Program	$1.4	$2.8
• Springfield State Fairgrounds; replace barns	0.3	3.2
• DuQuoin State Fairgrounds: upgrade HVAC system	0.2	1.7
• DuQuoin State Fairgrounds: upgrade electrical systems	0.1	1.3
• Springfield State Fairgrounds: renovate Emerson Building	0.1	1.0

Capital Development Board (CDB)

The Governor is requesting $13.0 million in Build Illinois funds 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. This appropriation would go for the following two 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.):

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• Northwestern University: Biomedical Research Facility	$1.0	$10.0
• Northwestern University: Nonofabrication & Molecular Center	0.3	3.0

Central Management Services (CMS)

The Governor's recommendation of $62.9 million in new appropriations for CMS comes almost entirely from the Capital Development Fund. Project requests include:

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• Capitol Complex: land & building acquisition	$5.5	$55.0
• State of IL Building, Chicago: upgrade electrical/mechanical	0.3	3.3
• Springfield Computer Facility	0.1	1.2
• Suburban North Regional Office: replace roofing system	0.1	1.1
• Upgrade the James Thompson Center's exterior columns	0.1	1.0

Commerce and Community Affairs (DCCA)

The total FY 2003 capital budget request for DCCA includes $110.9 million: $80.0 million from the Build Illinois Fund, $24.9 million from the Capital Development Fund, and $6.0 million from the Coal Development Fund.

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• Statewide capital improvement projections	$3.0	$30.0
• Argonne: capital improvement projects	2.2	22.4
• Argonne: Nanotechnology Research Institute	1.7	17.0
• Argonne: install rare isotope accelerator	1.3	13.0
• Rush Presbyterian: Cohn Biomedical Research Building	1.5	15.0
• Statewide coal development projects	1.0	6.0

Corrections

Under the Governor's plan, the Department of Corrections would receive $33.2 million in new appropriations, mostly from CDF. The largest projects to be funded are:

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• Menard Correctional Center: construct administrative building	$1.2	$12.3
• Shawnee Correctional Center: replace windows	0.4	4.3
• Illinois Youth Center, Joliet: repair roofs, replace windows	0.2	2.8
• Danville Correctional Center: upgrade power plant	0.2	2.2
• East Moline Correctional Center: replace windows, cooling tower	1.0	2.2
• Dixon Correctional Center: replace windows	0.2	1.9

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 2003	Total thru FY 2007
• Wastewater treatment program	$1.2	$12.0
• Deposit into Hazardous Waste Fund	1.0	10.0
• Drinking water program	0.7	7.0
• Brownfields Program	0.2	2.0

Board of Higher Education (BHE)

The FY 2003 budget submitted by the Governor recommends $224.6 million in new capital appropriations to BHE, $60.0 million from Build Illinois and $164.6 million from CDF. 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 2003, 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).

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• U of I Chicago: Chemical Sciences Building	$5.8	$57.6
• IL Community College Board: enhanced construction program	5.0	50.0
• SIU-Carbondale: Morris Library renovation/addition	2.6	25.7
• U of I Chicago: College of Medicine Building	2.5	25.0

• U of I Urbana-Champaign: expand microelectronics lab	1.8	18.0
• U of I Springfield: classroom office building	1.5	15.0

Historic Preservation Agency (HPA)

The Governor is recommending a total of $1.7 million in new appropriations for HPA in FY 2003 from CDF. The three projects recommended for funding are:

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• Lincoln Log Cabin, Coles County: various projects	$0.1	$1.2
• Old State Capitol, Springfield: repair elevators	0.0	0.4
• New Salem: provide electrical service at campgrounds	0.0	0.1

Human Services

The Governor is recommending $34.3 million in new capital appropriations for the Department of Human Services from the Capital Development ($33.3 million) and the Build Illinois ($1.0 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).

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• Shapiro Development Center: various repairs/rehabilitation	$1.0	$10.2
• Illinois School for the Deaf, Jacksonville: various renovations	0.6	5.6
• Murray DC: replace emergency management system	0.5	4.9

Judicial Branch

The FY 2003 Capital Program calls for $0.8 million in CDF spending for judicial branch needs. The major projects proposed include improvements at the Second Appellate Court in Ottawa and the Supreme Court Building in Springfield.

Legislative Space Needs Commission

The recommendation for FY 2003 to the Legislative Space Needs Commission is $1.3 million from the Capital Development Fund for remodeling of office space and support areas in the Capital Complex.

Medical District Commission

The Governor's FY 2003 budget recommends a total of $5.0 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 2003	Total thru FY 2007
• Purchase of land and site improvements	$0.4	$4.0
• Utility and infrastructure improvements	0.1	1.0

Military Affairs (DMA)

The Governor is requesting $7.8 million for the Department of Military Affairs, including $6.8 million in Capital Development Fund appropriations, and $1.0 million in Build Illinois Funds for rehabilitation and renovation of DMA facilities. The Governor's recommended FY 2003 budget includes the following programs:

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• Sycamore Armory: renovate electrical, interior, a/c	$0.2	$1.7
• Cairo Armory: replace roof, renovate interior/exterior	0.1	1.4
• Northwest Armory, Chicago: rehab mechanical systems	0.1	1.0
• Mattoon Armory: replace roof, renovate interior/exterior	0.1	1.0

Natural Resources

The Department of Natural Resources would receive $82.8 million in new appropriations under the Governor's capital plan, including $73.1 million from the Capital Development Fund and $9.7 million in Build Illinois Funds.

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• Statewide Open Land Trust Program	$4.0	$40.0
• Statewide Museums Improvement Program grants	1.0	10.0
• Lake Michigan shoreline protection	2.1	7.0
• Flood Control ongoing projects (State & Federal)	0.7	6.5

Department of Revenue

The Governor is requesting $5.5 million in new capital appropriations for the Department of Revenue in FY 2003. The appropriations would pay for several projects at the Willard Ice Building: completion of parking deck structural repairs; upgrades of fire alarm systems, voice-activated alarm systems, and building management controls; and, replacement of the dock exhaust system.

Secretary of State

A total of $15.3 million in new appropriations from the CDF is recommended for the Secretary of State. The following projects would be funded:

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• Capital Building: complete HVAC upgrade (Phase I)	$0.7	$6.4
• William G. Stratton Building: renovate building	0.6	6.0
• Capital Complex: asbestos abatement	0.1	1.0
• Capital Complex: remodel office space & support areas	0.1	1.0
• 5301 W. Lexington Ave., Chicago: renovate driver facility west	0.1	0.9

State Board of Education

This is the final year of a six-year $2.1 billion school construction program with new appropriations of $70.0 million in statewide grants for facility construction funded from the School Construction Fund. See pages 10 and 11 for more information on the School Construction Grant Program.

State Police

The Governor is requesting $2.9 million for the State Police. Approximately $2.0 million from the Build Illinois Fund will be used statewide for upgrades to firing ranges, targets and buildings.

Transportation (IDOT)

The Governor has approved $500.0 million and $151.1 million in new appropriations for IDOT from the Transportation Series "A" Bond Fund and the Transportation Series "B" Bond Fund, respectively.

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• Highways	$100.0	$500.0
• Mass transit grants to RTA	16.5	91.0
• Statewide grants for aeronautics	5.0	35.1
• Statewide grants for rails	3.0	20.0
• Downstate mass transit grants	0.5	5.0

Veterans' Affairs

The Governor's budget requests $4.6 million in new capital appropriations for the Department of Veterans' Affairs from the Capital Development Fund ($3.6 million) and the Build Illinois Fund ($1.0 million). The three largest projects for Veteran Affairs include:

PROGRAMS ($ millions)	FY 2003	Total thru FY 2007
• Manteno VA facility: construct storage, renovate offices	$0.1	$1.4
• Manteno VA facility: install dehumidifiers/humidifiers	0.1	1.0
• Quincy VA facility: construct bus/ambulance garage	0.1	0.9

TABLE 3: GENERAL OBLIGATION BOND FUNDS

Capital Expenditure Plan

FY 2003

($ Millions)

Fund	Approp. FY 2003	Spending from FY 2003 Appropriation FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Total, All Funds	**$4,982.4**	**$1,749.0**	**$1,411.0**	**$876.9**	**$606.5**	**$317.1**
New Appropriations	1,250.6	259.5	460.2	369.8	143.8	17.3
Reappropriations	3,731.8	1,489.5	950.8	507.1	462.7	299.8
Capital Development	**$2,465.7**	**$625.0**	**$575.0**	**$530.0**	**$418.6**	**$317.1**
New Appropriations	504.5	81.6	177.2	159.8	68.6	17.3
Reappropriations	1,961.2	543.4	397.8	370.2	350.0	299.8
School Construction	**$781.6**	**$525.0**	**$256.6**	**$0.0**	**$0.0**	**$0.0**
New Appropriations	70.0	50.0	20.0			
Reappropriations	711.6	475.0	236.6			
Anti-Pollution	**$79.9**	**$21.0**	**$21.0**	**$23.0**	**$14.9**	**$0.0**
New Appropriations	19.0	1.9	6.0	8.0	3.1	
Reappropriations	60.9	19.1	15.0	15.0	11.8	
Transportation A	**$966.4**	**$395.0**	**$376.4**	**$150.0**	**$45.0**	**$0.0**
New Appropriations	500.0	100.0	205.0	150.0	45.0	
Reappropriations	466.4	295.0	171.4			
Transportation B	**$647.0**	**$175.0**	**$175.0**	**$170.0**	**$127.0**	**$0.0**
New Appropriations	151.1	25.0	50.0	50.0	26.1	
Reappropriations	495.9	150.0	125.0	120.0	100.9	
Coal Development	**$41.9**	**$8.0**	**$7.0**	**$3.9**	**$1.0**	**$0.0**
New Appropriations	6.0	1.0	2.0	2.0	1.0	
Reappropriations	35.9	7.0	5.0	1.9		

SOURCE: Bureau of the Budget's Five-Year Expenditure Plan for the FY 2003 Budget.

Illinois FIRST

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

The Illinois FIRST program is included in Public Acts 91-0036, 91-0037, 91-0038, and 91-0039 signed by the Governor on June 15, 1999. Public Act 91-0036 added language to adhere with federal law and allowed the State to capitalize on federal funding for programs related to the Water Revolving Fund, Hazardous Waste Fund, and the Brownfields Redevelopment Fund.

Public Act 91-0039 increased the bond authorization for general obligation and Build Illinois. The general obligation portion was primarily used for highways (Transportation A), mass transit (Transportation B) and School Construction bonds. The increased Build Illinois authorization was used for local infrastructure projects under the Illinois FIRST program.

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

Public Act 91-0038 raised the State's liquor tax, while Public Act 91-0037 increased motor vehicle registration and title fees. The increased State revenues raised approximately $571.0 million, which will be required annually for Illinois FIRST's additional debt service and "pay as you go" projects. Public Act 91-0037 also limited the amounts of Road Funds to specified agencies so they could not be used for non-highway-related purposes.

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 2003 are to be submitted by April 1, 2002.

Grant Applications per Fiscal Year	1998	1999	2000	2001	2002	2003
Applications Received	57	197	157	166	204	Not available
Applications Entitled*	53	161	131	148	191	Not available

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

Appropriations by Fiscal Year	1998	1999	2000	2001	2002	2003
State appropriation (millions)	$30.0	$327.0	$540.0	$500.0	$740.0	$70.0

The FY 2002 appropriation of $740.0 million allowed funding for all FY 2001 projects for districts that were entitled and able to secure their local share of funds. The $70.0 million in remaining bond funds to be appropriated in FY 2003 would fund, at the most, six of the 191 entitled applications for FY 2002, leaving approximately $1.0 billion in need, if local districts are able to secure their local share of funding. These numbers do not include FY 2003 applications.

Grants are funded from the School Construction portion of general obligation bond sales. Although already appropriated (including FY 2003 request), approximately $893.7 million of School Construction bond authorization remains unissued, because bonds are sold as needed for the approved construction projects. 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 $60.0 million a year (approximately 75% of the additional liquor tax increase from IL FIRST) and 1/7th of the 7% Telecommunications Excise tax from the School Reform Act.

School Infrastructure Fund	1998	1999	2000	2001	2002 estimate	2003 estimate
Telecommunications excise tax (millions)	$35.2	$101.5	$108.5	$114.9	$115.8	$119.8
Liquor tax (millions)	-------	-------	$60.0	$60.0	$0.0*	$60.0
TOTAL	**$35.2**	**$101.5**	**$168.5**	**$174.9**	**$115.8**	**$179.8**

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

Funds are transferred from the School Infrastructure Fund to the General Obligation Bond Retirement and Interest Fund monthly to pay for the school construction portion of debt service. The following table shows the amounts transferred from FY 1998 to estimates for FY 2002 and FY 2003:

G. O. Bond Retirement and Interest Fund	1998	1999	2000	2001	2002 estimate	2003 estimate
Transfers from School Infrastructure Fund (millions)	n/a	7.0	21.0	49.0	78.0	130.0

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 needed.

Build Illinois Bonds

The Build Illinois Bond Act was pitched as an eight-year bond selling and spending plan for economic development. Public Act 84-0111, enacted July 25, 1985, set an authorization amount of $948.0 million (excluding refunding bonds which have no limit) with a maximum of 30 years maturity on the bonds sold. The Act did not set an actual time frame on the program. Bonds to be sold were separated into the following project categories:

- Improvement of the State's infrastructure;
- Development of educational, scientific, technical and vocational programs and facilities, and expansion of health and human services;
- Preservation of the State's environmental and natural resources; and
- Incentives for businesses to relocate and expand in Illinois.

Build Illinois funding would also be available through loans for the Illinois Industrial Coal Utilization Program, soil and water conservation projects, and railroad improvements.

The Build Illinois program was expanded in 1988 to add water pollution control and wastewater projects with a $378.5 million increase in authorization- $300 million for loans to local governments, $70 million to provide the State match required to capture federal funding for a revolving loan fund, and the remainder for cost of bond issuance. The Build Illinois program was winding down until its second major expansion as a part of the Illinois FIRST Program, which included funds for the Hazardous Waste Fund and the Brownfields Redevelopment Fund. This legislation was passed in Public Act 91-0039, which increased Build Illinois authorization by $754.5 million. The Illinois FIRST-Build Illinois bonds will continue to be sold through FY 2008.

Since the inception of the Build Illinois program in 1985, authorization has been increased by the legislature six times, including an increase of $688.8 million approved June 11, 2001. The following table lists the authorization changes to date.

TABLE 4: BUILD ILLINOIS AUTHORIZATION HISTORY

Public Act	Effective	Authorization	$ Change
84-0111	7/25/1985	$948,000,000	$948,000,000
85-1135	9/1/1988	$1,326,500,000	$378,500,000
86-0078	7/20/1989	$2,030,500,000	$704,000,000
86-1473	12/28/1990	$2,036,500,000	$6,000,000
91-0039	6/15/1999	$2,790,970,000	$754,470,000
91-0709	5/17/2000	$2,851,970,000	$61,000,000
92-0009	6/11/2001	$3,540,715,000	$688,745,000

Build Illinois bonds issued to date equal $2.237 billion with the longest maturity lasting through FY 2022. The $1.304 billion of bonds still to be issued will be sold through FY 2007 as needed. Build Illinois bonds are normally sold with 20-year maturities. Total outstanding debt for Build Illinois bonds equals $1.693 billion, with debt service for FY 2002 reaching approximately $173.3 million.

Authorization

General Obligation Bonds

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

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

The Governor is requesting an increase in G.O. bond authorization of $708.0 million, bringing the total G.O. bond authorization (excluding refunding) to $15.973 billion, a 4.6% increase over the current authorization level. (The authorization levels listed in the Capital Plan reflect the Governor's actual legislative request, which differ from his initial Budget book numbers). The additional authorization is requested as follows: $689.0 million in the Capital Facilities category and $19.0 million in the Anti-Pollution category. Table 5 shows the change in general obligation bond authorization leading up to FY 2002 and that proposed for FY 2003.

TABLE 5: RECENT G.O. BOND AUTHORIZATION CHANGES

($ Millions)

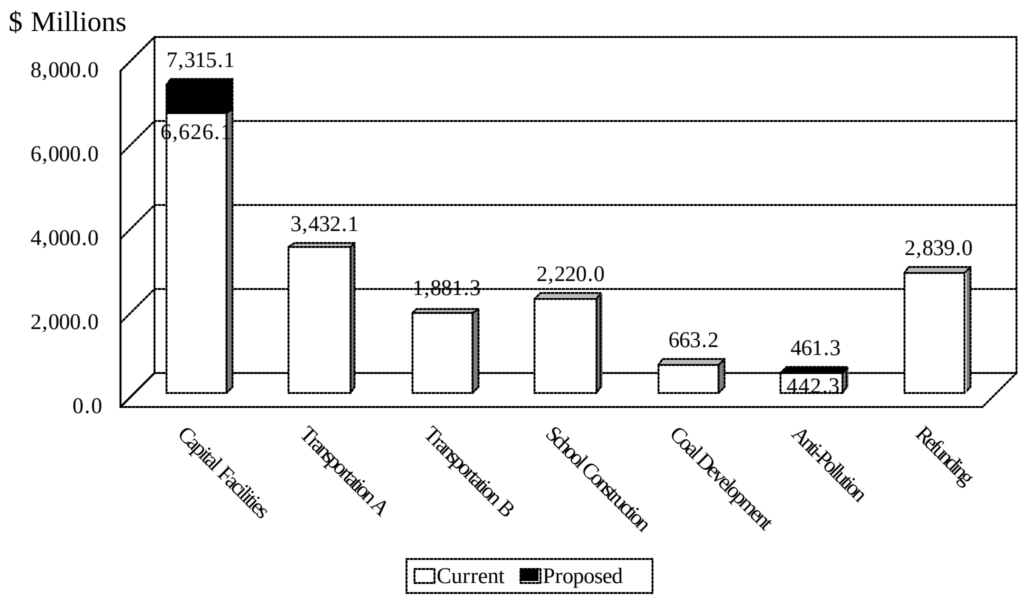
	Initial FY 2001	Increase per P.A. 92-0013	FY 2002	Requested FY 2003	Proposed Increase	% Increase
Capital Facilities	$6,078.8	$547.3	$6,626.1	$7,315.1	$689.0	10.4%
Transportation A	3,431.0	1.1	3,432.1	3,432.1		
Transportation B	1,881.3	0.0	1,881.3	1,881.3		
School Construction	2,220.0	0.0	2,220.0	2,220.0		
Coal Development	163.2	500.0	663.2	663.2		
Anti-Pollution	423.3	19.0	442.3	461.3	19.0	4.3%
Refunding	2,839.0	0.0	2,839.0	2,839.0		
TOTAL G.O. Authority	**$17,036.6**	**$1,067.4**	**$18,104.1**	**$18,812.0**	**$708.0**	**3.9%**

The proposed increase of $689.0 million in the Capital Facilities category represents a 10.4% increase over the current level of $6.626 billion. The requested $19.0 million increase in the Anti-Pollution authorization represents a 4.3% rise in that category.

Chart 1 illustrates the Governor's proposed additions and new totals for General Obligation authorization by bond fund.

CHART 1 **G.O. AUTHORIZATION BY BOND FUNDS**

Current and Proposed Totals



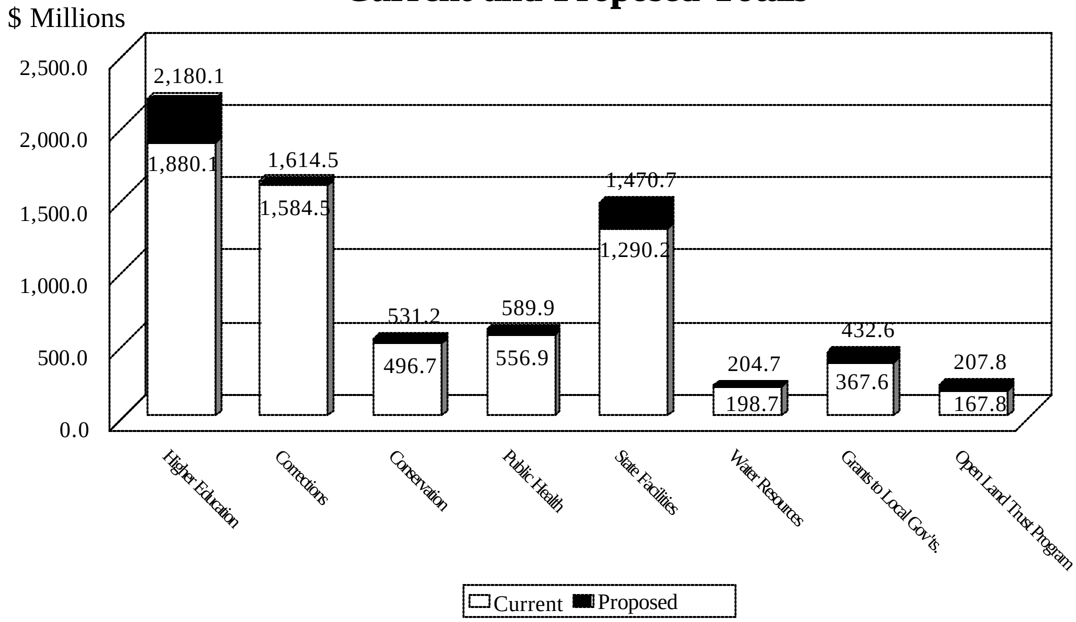
Current authorization as enacted; proposed based on Governor's FY 2003 Budget Request

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 $689.0 million would be allocated.

CHART 2

G.O. AUTHORIZATION: CAPITAL DEVELOPMENT

Current and Proposed Totals



Current authorization as enacted; proposed based on Governor's FY 2003 Budget Request

Higher Education would receive $300.0 million of the $689.0 million Capital Development Fund authorization increase, representing a 16.0% increase in that category. State Facilities would receive the next largest increase in authorization, at $180.5 million (14.0% increase). Authorization for Grants to local governments for facilities is to increase by $65.0 million, a 17.7% increase, while the Illinois Open Land Trust Program is to receive $40.0 million, a 23.8% increase. Four other capital programs received the following increases: Conservation by $34.5 million (6.9%), Public Health Facilities by $33.0 million (5.9%), Correctional Facilities by $30.0 million (1.9%), and Water Resources by $ 6.0 million (3.0%).

Also requested in FY 2003 is an increase of $145.0 million for the Build Illinois program, including $32.5 million for infrastructure and transportation; $47.0 million for economic development; and $65.5 million for educational, scientific and technological facilities development and the expansion of health and human services. This proposed increase in authorization from $3.541 billion to $3.686 billion represents a 4.1% increase.

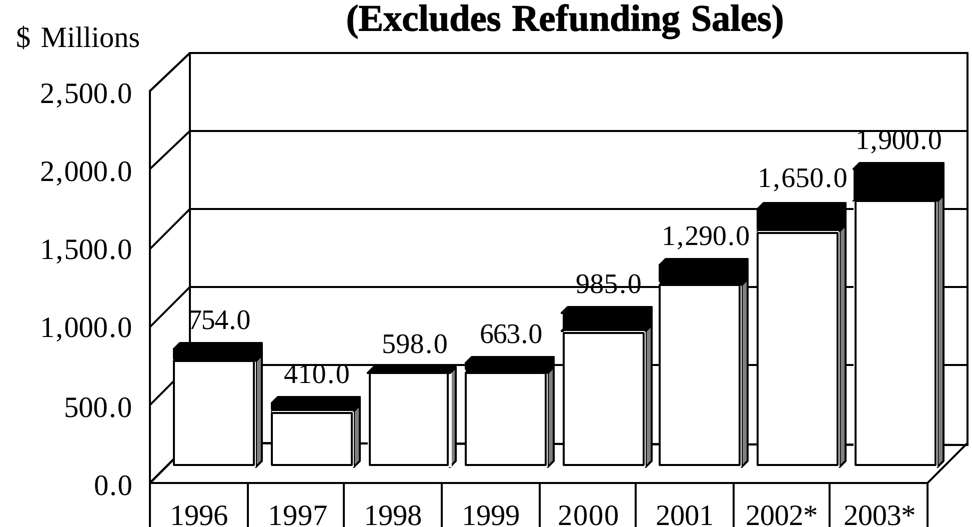
Bond Sales

For FY 2003, general obligation bond and Build Illinois bond sales of $1.7 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)



	1996	1997	1998	1999	2000	2001	2002*	2003*
State-Issued Revenue	80.0	60.0	0.0	60.0	125.0	125.0	150.0	200.0
General Obligation	674.0	350.0	598.0	603.0	860.0	1,165.0	1,500.0	1,700.0

General Obligation ■ State-Issued Revenue

* BOB Estimates

Including Series March 2002 bonds to be issued, $1.5 billion in new project general obligation bonds will have been sold in FY 2002. The Bureau of the Budget also plans a sale of $150.0 million of Build Illinois bonds in April of 2002.

Refunding sales for FY 2002 include $318.8 million in general obligation bonds sold in December of 2001, and Build Illinois bonds sales of $110.5 million sold in September of 2001. The Bureau of the Budget plans to sell another $80.0 million of G.O. and $50.0 million of Build Illinois refunding bonds by the end of FY 2002.

The Bureau has proposed sales of $1.7 billion of general obligation bonds for projects in FY 2003. This projected level of bond sales would be 13.3% higher than the estimated level for FY 2002 of $1.5 billion. The Bureau also has proposed sales of

$200.0 million of Build Illinois Bonds for projects in FY 2003, 33.3% higher than the previous fiscal year.

Debt Ratios and Bond Ratings

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

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

Illinois' Moderate Debt

The analyst for the State of Illinois at Fitch Ratings indicates that Illinois has a moderate debt rating. Fitch's assessment is based on a formula which weighs heavily on debt to personal income, which Illinois is at 2.3%. Fitch teams also look at debt per capita and direct debt service as a percentage of revenues to come up with their ratings. Including Build Illinois, Fitch's Illinois' debt rating is about 4%, placing it in their moderate category.

FITCH'S STATE DEBT RATINGS	
Low Debt	below 2%
Moderate Debt	2-6%
High Debt	above 7%
Average	2-4%
Illinois	4%

Bond Ratings

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

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

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

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

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

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

History of Illinois' Bond Rating

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

Standard & Poor’s affirmed its AA rating but revised its outlook upward on the State’s credit from stable to positive in the summer of 2000, citing “a deep and diversified economy, an improving financial condition, moderate debt levels,” and State cash balances that were $1.351 billion at the end of Fiscal Year 1999 (the highest in the State’s history).

In June of 2000, Fitch 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

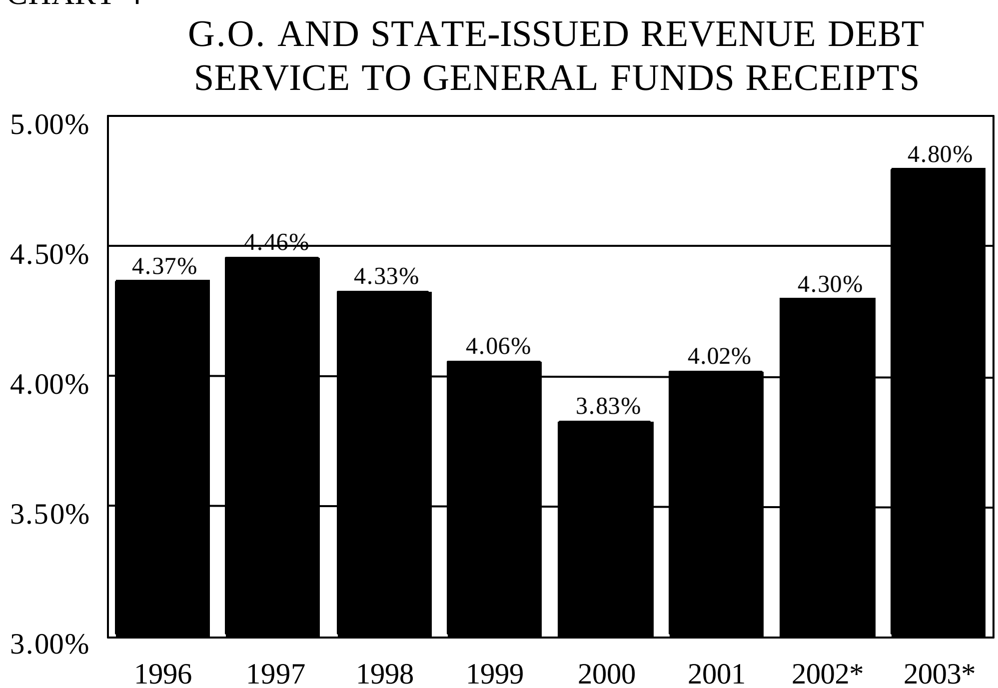
4.3% of personal income, a moderate level". Fitch raised the State's Build Illinois bond rating to AA+ at the end of February 2001.

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 Investors Service	***Aa3***	***Aa2***	***Aa2***	***Aaa (quality) or Aa1 (credit)***

Chart 4 shows G.O. and State-issued revenue debt service to general funds receipts.

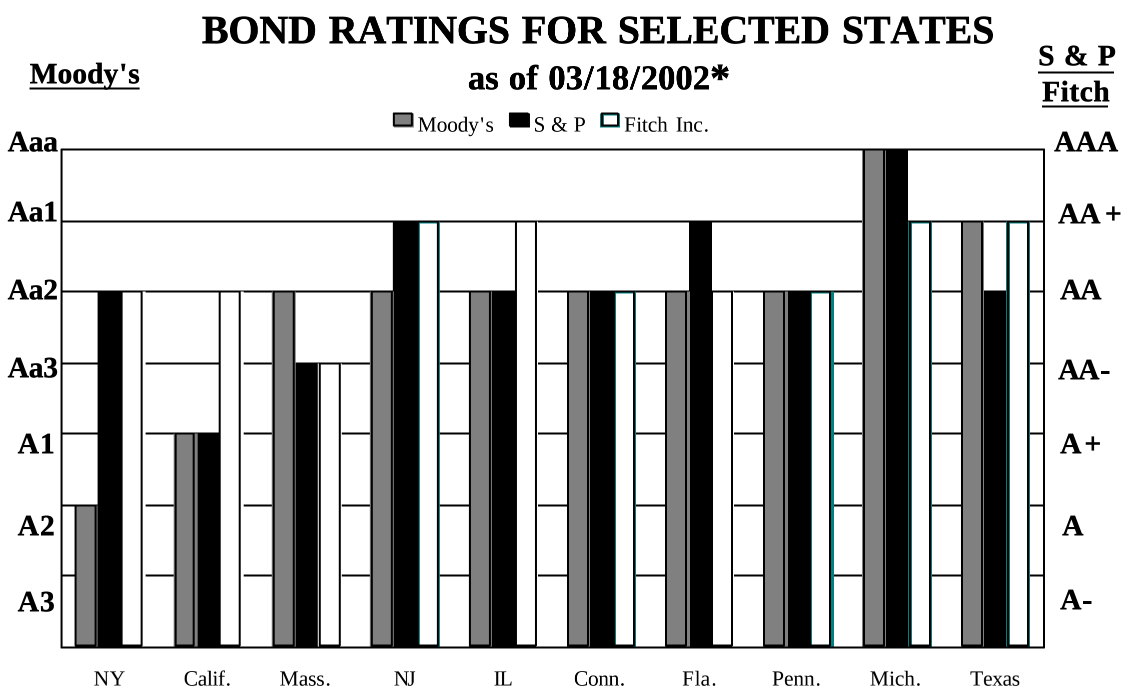
CHART 4



* IEFC

Chart 5 compares the bond ratings for the top ten states in government debt outstanding as a percentage of total U.S. debt (using 1998 figures). Economic conditions and effects from September 11th have lowered ratings for two of the states in this chart—California and New Jersey. At the time of publication of the IEFC's 2001 Illinois Bond Watcher (November 2001), California had been put on the negative watch list of all three rating agencies. Moody's downgraded California from Aa3 to A1 in late November due to the "lack of flexibility in the budget" to fix the "state's budget shortfall". To date California is still on Fitch's negative watch list. New Jersey was recently downgraded (March 2002) by Moody's from Aa1 to Aa2 due to the "dramatic negative effect of depressed stock market and weakened financial services industry on state's revenues and overall financial plan". New Jersey has also been added to Standard & Poor's negative watch list.

CHART 5



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

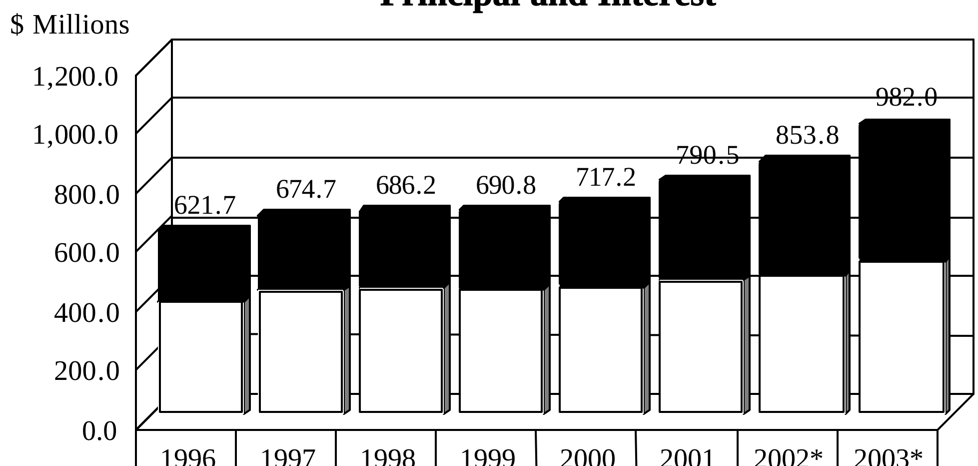
Debt Service

Based on expected general obligation bond sales, debt service for the capital program is expected to increase from $853.8 million in FY 2002 to $982.0 million in FY 2003. This is an increase of $128.2 million or 15.0% in debt service payments. (This number may change due to refunding bond issues planned for FY 2003.) As shown in Chart 6, the $982.0 million would be comprised of an estimated $519.8 million in payments on principal and $462.2 million in payments on interest. In FY 2002, debt service will consist of $468.9 million in principal and $384.9 million in interest payments.

CHART 6

GENERAL OBLIGATION DEBT SERVICE

Principal and Interest



	1996	1997	1998	1999	2000	2001	2002*	2003*
Interest	241.7	255.6	258.9	267.8	286.7	336.6	384.9	462.2
Principal	380.0	419.1	427.3	423.0	430.5	453.9	468.9	519.8

* BOB Estimate

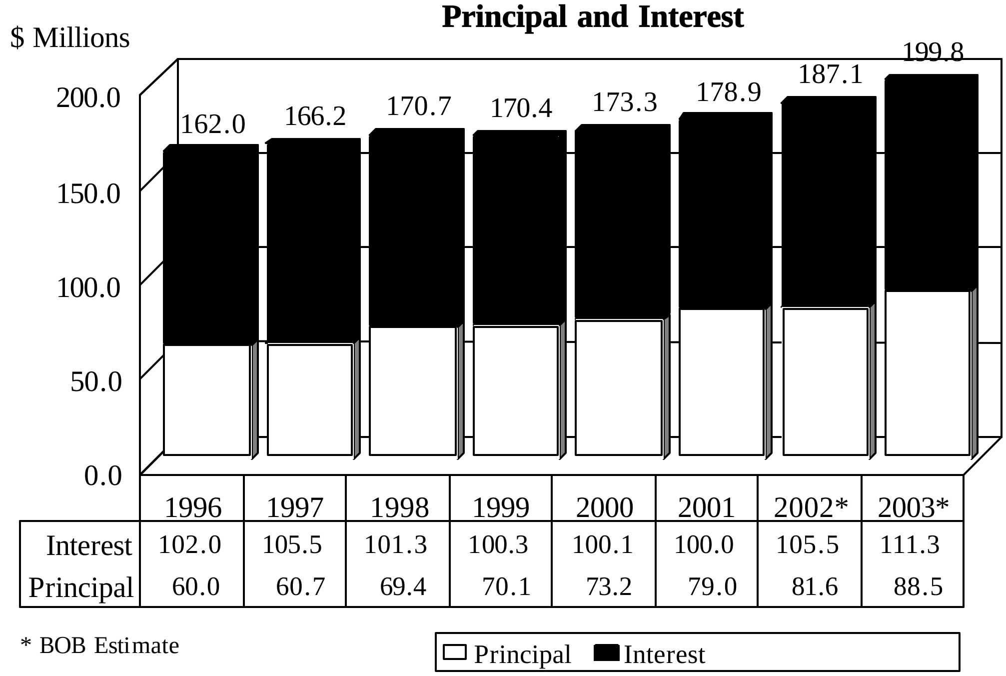
Principal Interest

G.O. debt service is paid for from the General Obligation Bond Retirement and Interest Fund which receives transfers from the Road Fund, School Infrastructure Fund, and the General Revenue Fund. For FY 2003, BOB estimated that 64.3% of G.O. debt service will be paid from the General Revenue Fund, 22.5% from the Road Fund, and 13.2% from the School Infrastructure Fund.

Chart 7 shows debt service for Build Illinois and Civic Center bonds. FY 2002 debt service will be approximately $187.1 million, an increase of 4.6% from the FY 2001 level of $178.9 million. FY 2003 is estimated to be $199.8 million, an increase of 6.8% over the FY 2002 level.

CHART 7

STATE-ISSUED REVENUE DEBT SERVICE
Principal and Interest



Fiscal Year 2002 debt service for Build Illinois bonds is expected to be $173.3 million, comprised of $76.0 million in principal payments and $97.3 million in interest. FY 2003 Build Illinois debt service payments are estimated to be $186.0 million, of which $82.6 million will be for principal payments and $103.4 million for interest payments.

Debt service for Civic Center bonds in FY 2002 will total $13.8 million with the principal portion equaling $5.6 million and interest payments equaling $8.2 million. Civic Center bonds debt service payments for FY 2003 will be approximately $13.8 million, comprised of $5.9 million in principal and $7.9 million in interest.

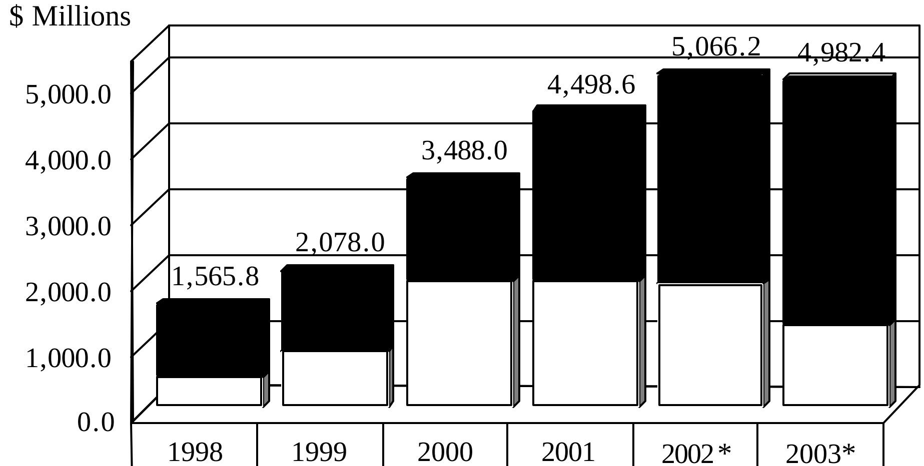
Appropriations

The FY 2003 budget book contains requests for capital appropriations from general obligation bond funds totaling $4.983 billion. The total includes $1.251 billion in new general obligation appropriations and $3.732 billion in reappropriations, which represent a $624.8 million decrease in new appropriations and a $541.0 million increase in reappropriations from the current FY 2002 levels. The total appropriations requested from general obligation bond funds for FY 2003 represent a decrease of

$83.8 million, 1.7%, over FY 2002. The annual appropriations from FY 1998 to the recommended FY 2002 and FY 2003 amounts are illustrated in Chart 8.

CHART 8 **GENERAL OBLIGATIONS APPROPRIATIONS**

Fiscal Years 1996-2003



	1998	1999	2000	2001	2002*	2003*
Reappropriations	1,106.7	1,231.0	1,577.0	2,586.2	3,190.8	3,731.8
New Appropriations	459.1	847.0	1,911.0	1,912.4	1,875.4	1,250.6

☐ New Appropriations
■ Reappropriations

*FY 2002 and FY 2003 based on budget book

The State began FY 2002 with a general obligation bond authorization level, excluding refunding, of $15.265 billion. A total of $5.719 billion in bond authorization, excluding refunding authorization, remains unissued. The Governor is requesting $708.0 million in additional general obligation bond authorization, which would bring the total G.O. bond authorization, excluding refunding, to $15.973 billion, a 4.6% increase over the current authorization level.

Charts 9 and 10 provide additional information on the requested general obligation appropriations for FY 2003 broken down by bond fund. Chart 9 shows the approximate percentages each bond fund represents of the total appropriation request (includes both new and reappropriations). As shown in this chart, the $2.466 billion for Capital Development comprises 49.5% of the total. Transportation A funds would become the second largest segment of general obligation appropriations, funded at $966.4 million, or 19.4% of the total. The $781.6 million for School Construction funds would account for 15.7% of the total annual appropriations. Transportation B funds account for $647.0 million, or 13.0% of the total. Anti-pollution and Coal

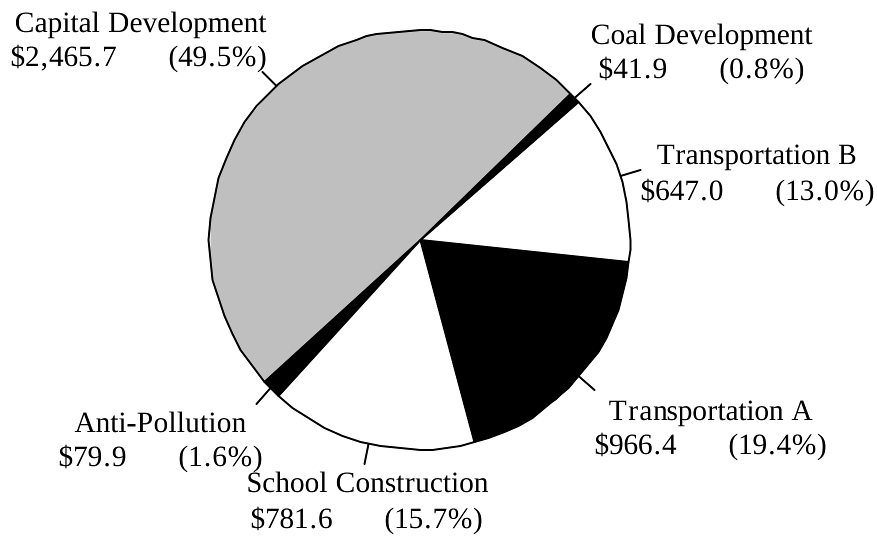
Development appropriations would represent $79.9 million (1.6%) and $41.9 million (0.8%), respectively.

CHART 9

FY 2003 G.O. APPROPRIATIONS

By Bond Fund ($ Millions)

Total: $4.982 Billion = 100%



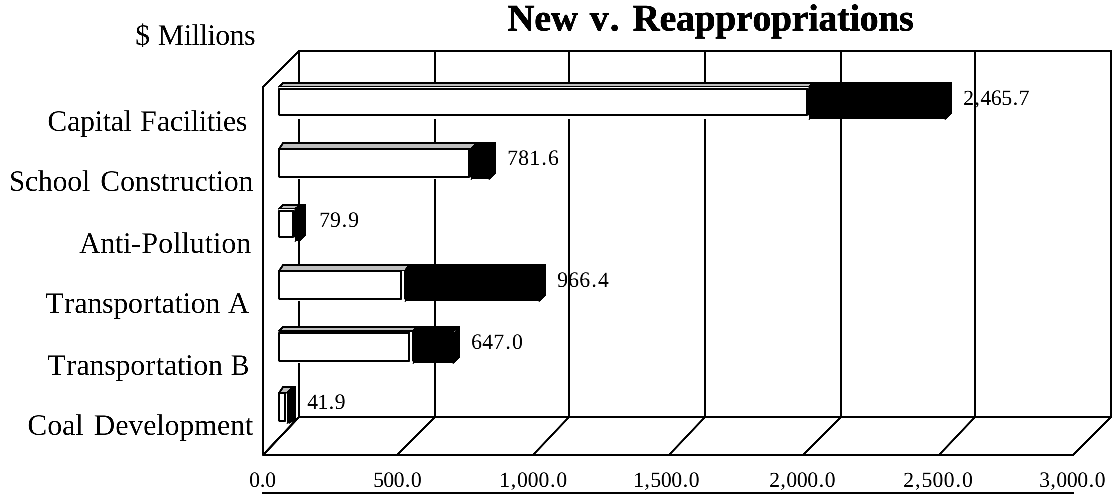
NOTE: based on FY 2003 budget book

Chart 10 shows the requested appropriations broken down by categories into new and reappropriations. The Governor's FY 2003 budget requests new G.O. bond fund appropriations totaling $1.251 billion for all general-purpose categories. New appropriations would be highest for Capital Development ($504.5 million) and Transportation A ($500.0 million). Transportation B and School Construction categories would receive new appropriations of $151.1 and $70.0 million, respectively. The Anti-Pollution category would receive $19.0 million in new appropriations, and the Coal Development category would receive $6.0 million.

CHART 10

FY 2003 G.O. APPROPRIATIONS

New v. Reappropriations



	Capital Facilities	School Construction	Anti-Pollution	Transportation A	Transportation B	Coal Development
Re-appropriations	1,961.2	711.6	60.9	466.4	495.9	35.9
New Appropriations	504.5	70.0	19.0	500.0	151.1	6.0

Reappropriations ■ New Appropriations

Note: based on FY 2003 budget book

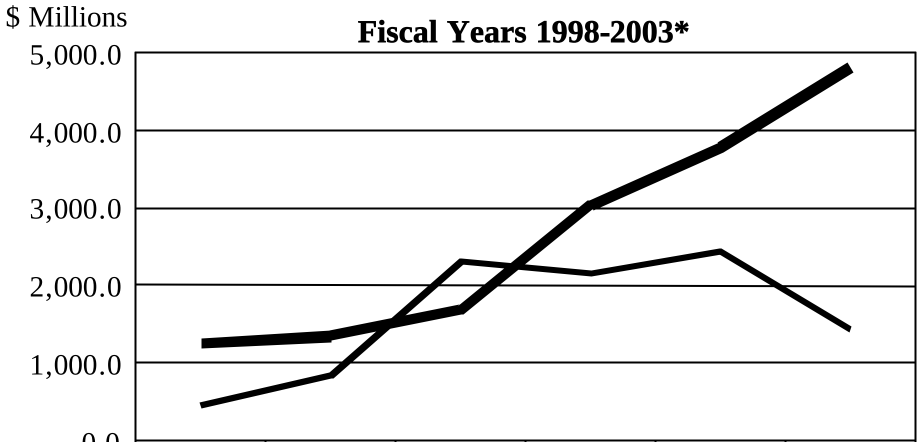
The FY 2003 appropriations request from Build Illinois bond funds equals $1.253 billion, made up of $184.4 million in new appropriations and $1.068 billion in reappropriations. The total appropriations request for FY 2003 from all bond funds combined is $6.235 billion, with a 0.1% increase from the FY 2002 level of $6.230 billion.

Chart 11, on the following page, shows the amount of new appropriations versus reappropriations of all bond funds combined for fiscal years 1998 through 20003. Reappropriations are unused funds appropriated in a previous fiscal year that are being tapped for use in the current fiscal year. As the chart shows, fiscal years 2000 through 2002 showed new appropriations above the $2.0 billion mark. In FY 2003, the Governor is requesting $1.435 billion in new appropriations from all bond funds, a decrease of 41.4% over the previous fiscal year.

CHART 11

NEW APPROPRIATIONS v. REAPPROPRIATIONS OF COMBINED BOND FUNDS

Fiscal Years 1998-2003*



	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002*	FY 2003*
New Appropriations	461.6	852.0	2,312.5	2,151.8	2,447.7	1,435.0
Reappropriations	1,261.4	1,352.4	1,685.3	3,038.6	3,782.2	4,800.2

Note: based on FY 2003 budget book

New Appropriations — Reappropriations

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. These costs are the same as were paid in FY 2002.

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