ILLINOIS ECONOMIC
AND
FISCAL COMMISION

FY 2004 LEGISLATIVE CAPITAL PLAN ANALYSIS

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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 2004 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 2004 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 $3.326 billion in new appropriations is requested for the FY 2004 Capital Plan, made up of Bond, Revenue and Federal/Trust funds. This equals 31.0% of the total $10.747 billion requested for FY 2004, with the remainder comprised of reappropriations.

- Approximately $695.2 million, or 24.7%, of the $2.814 billion requested for the Capital Development Board for FY 2004 represents new appropriations for the renovation or construction of facilities.

- This is the sixth and final year of a $3.05 billion school construction program with new appropriations of $500.0 million.

- The Governor plans on a $1.5 billion short-term borrowing plan to pay off overdue bills: $750 million for Medicaid ($200 million is non GRF), $475 million for corporate and personal income tax refunds, and $275 million for school districts, increasing the total FY 2003 short-term borrowing total to $2.5 billion.

- On April 7, 2003, Public Act 93-0002 was signed into law, which authorizes the State to issue $10.0 billion in general obligation pension obligation bonds. The pension obligation bonds are **not included** in the bond sales, principal outstanding, and debt service figures in the Governor's budget, and therefore are not included in those figures for this report.

- The Governor is requesting $129.0 million in additional general obligation authorization, which would bring the total G.O. bond authorization (excluding refunding) to $17.037 billion, a 0.8% increase over the current authorization level. FY 2004 general obligation and Build Illinois bond sales are estimated to be $1.6 billion and $250.0 million, respectively for projects.

- Total outstanding State-supported principal expected for FY 2003 is $10.935 billion, a 14.6% increase over the FY 2002 level. FY 2004 is expected to increase 11.2% to $12.160 billion in outstanding principal.

- It is estimated that G.O. debt service will grow in FY 2004 to an estimated $1.061 billion, of which $528.2 million would pay principal and $532.7 million would pay for interest. The GRF will comprise $675.0 million or 63.6% of this amount.

- In FY 2004 new appropriations from general obligation bond funds will total $1.330 billion and reappropriations of $3.195 billion, which represent a decrease in new appropriations of $362.9 million and a decrease in reappropriations levels of $181.6 million from current FY 2003 levels.

- Of the $1.789 billion from Revenue funds for new appropriations for the FY 2004 Capital Plan, only $60.7 million of General Revenue funding is requested.

FY 2004 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 2004 include: Build Illinois, Capital Development, School Construction, Anti-Pollution, Coal Development, and Transportation A and B funds. The FY 2004 budget request for the capital program includes new appropriations of $3.326 billion and reappropriations of $7.421 billion, for a total of $10.747 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 APPROPRIATIONS
($ Millions)

FUND TYPE	*NEW APPROPRIATIONS*	*REAPPROPRIATIONS*	*TOTAL*
Bond	$1,955.1	$4,365.0	$6,320.1
Revenue	2,343.1	3,183.1	5,526.2
Federal/Trust	153.0	320.7	473.7
TOTAL	$4,451.2	$7,868.8	$12,320.0

FY 2004 CAPITAL PROGRAMS REQUESTED APPROPRIATIONS
($ Millions)

FUND TYPE	*NEW APPROPRIATIONS*	*REAPPROPRIATIONS*	*TOTAL*
Bond	$1,453.4	$4,001.6	$5,455.0
Revenue	1,788.7	3,197.6	4,986.3
Federal/Trust	84.4	221.8	306.2
TOTAL	$3,326.5	$7,421.0	$10,747.5

Approximately $3.326 billion, or 31.0%, of the $10.747 billion requested for FY 2004 represent new appropriations for renovation or construction projects. The current FY 2003 new appropriations of $4.451 billion represent 36.1% of the $12.320 billion total capital appropriation request.

Of the $1.789 billion from Revenue funds for new appropriations for the FY 2004 Capital Plan, only $60.7 million of General Revenue funding is requested. In FY 2003, Revenue new appropriations were $2.343 billion, of which only $58.3 million came from the General Revenue Fund.

The budget request for appropriations to the Capital Development Board (CDB) for capital projects, including new appropriations and reappropriations, totals $2.814 billion from the following funds:

TABLE 2: FY 2004 CAPITAL DEVELOPMENT BOARD NEW APPROPRIATIONS ($ Millions)			
FUND TYPE	***NEW APPROPRIATIONS***	***REAPPROPRIATIONS***	***TOTAL***
Capital Development	$125.2	$1,386.5	$1,511.7
School Construction	500.0	529.2	1,029.2
School Infrastructure	0.0	4.4	4.4
General Revenue	0.0	11.2	11.2
Build Illinois	70.0	169.9	239.9
Asbestos Abatement	0.0	1.6	1.6
Tobacco Settlement	0.0	15.5	15.5
TOTAL	$695.2	$2,118.3	$2,813.5

Approximately $695.2 million, or 24.7%, of the $2.814 billion requested for the CDB for FY 2004 represents new appropriations for the renovation or construction of facilities. The only new appropriations for the CDB are from the Capital Development ($125.2 million), School Construction ($500.0 million), and Build Illinois ($70.0 million) funds. The General Revenue funding requested for the CDB includes $11.2 million in reappropriations only. The remainder of the Governor's request of new appropriations would be appropriated to specific agencies. In FY 2003 actual appropriations for CDB equaled $3.125 billion, including $896.1 million in new appropriations. Of this amount $20.0 million came from the General Revenue Fund, all from reappropriations.

CAPITAL PROJECTS BY AGENCY

Below are selected new capital projects receiving bond fund proceeds, listed by agency. The costs are listed in $1.0 million increments, as the required appropriations in FY 2004 and the total required appropriations through FY 2008. 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 2004 (See Table 3, page 7).

Agriculture

The Governor's capital budget request of $4.3 million in new appropriations for the Department of Agriculture would all be paid from the Capital Development Fund

(CDF). The two projects listed are: $2.6 million for statewide Conservation 2000 projects, and $1.7 million for the DuQuoin State Fairgrounds to upgrade its electrical distribution systems.

Capital Development Board (CDB)

The Governor is requesting $5.0 million in Capital Development funds for the Capital Development Board so that a Capital Planning and Condition Assessment and Analysis can be performed in FY 2004.

Central Management Services (CMS)

The Governor's recommendation of $5.1 million in new appropriations for CMS comes entirely from the Capital Development Fund. There are only four requests, the largest of which is to install an emergency generator at the James R. Thompson Center in Chicago for $3.5 million.

Commerce and Economic Opportunity (formerly Commerce and Community Affairs)

The total FY 2004 capital budget request for DCEO is $88.5 million. Of this amount $56.0 million would come from the Coal Development Fund, $32.0 million from the Build Illinois Fund, and $0.5 million from the CDF.

PROGRAMS ($ millions)	FY 2004	Total thru FY 2008
• Statewide coal development projects	$0.6	$56.0
• Argonne: Nanotechnology Research Institute	1.7	17.0
• Statewide Prime Sites projects	1.5	15.0
• Argonne: True Grid I-Wire	0.3	0.5

Corrections

The Department of Corrections would receive $35.3 million in new appropriations, mostly from CDF. The largest projects to be funded are:

PROGRAMS ($ millions)	FY 2004	Total thru FY 2008
• Illinois Youth Center, Harrisburg: upgrade utilities/gas/sewer	$0.8	$7.5
• Vienna Correctional Center: replace freezer, upgrade power plant	0.7	7.0
• Big Muddy Correctional Center: replace door lock controls/intercoms	0.3	2.8
• Lincoln Correctional Center: upgrade doors/locks/freezers	0.3	2.8
• Logan Correctional Center: upgrade power plant/electrical system	0.2	2.4
• Pontiac Correctional Center: replace doors/frames/roof of Training Ctr.	0.2	2.0

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 2004	Total thru FY 2008
• Drinking/Wastewater treatment programs	$1.9	$19.0
• Brownfields Program	1.2	12.0

Board of Higher Education (BHE)

The FY 2004 budget submitted by the Governor recommends $107.4 million in new capital appropriations to BHE, $60.0 million from Build Illinois and $47.4 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. 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 statewide capital renewal (repair and maintenance). Other large projects include $50.0 million to the Illinois Community College Board's enhanced construction program, and $22.1 million to Illinois State University to improve life/safety at Stevenson and Turner Halls.

Human Services

The Governor is recommending $24.7 million in new capital appropriations for the Department of Human Services from the Capital Development ($22.7 million) and the Build Illinois ($2.0 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 2004	Total thru FY 2008
• Illinois School for the Visually Impaired: various renovations	$0.4	$3.7
• Murray DC: complete renovation of boiler house	0.3	3.4
• Choate MHC: replace Red Bud roof, renovate Sycamore Hall	0.3	3.0
• Howe DC: HVAC replacement, upgrade kitchen plumbing	0.3	2.6
• Chicago Read MHC: repair roofs, rehab absorbers/controls/valves	0.3	2.5
• Illinois School for the Deaf: replace dorm doors	0.2	2.0

Legislative Space Needs Commission

The recommendation for FY 2004 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 2004 budget recommends a total of $3.0 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 land acquisition and site development.

Military Affairs (DMA)

The Governor is requesting $8.4 million for the Department of Military Affairs, all from the Capital Development Fund for rehabilitation and renovation of DMA facilities at the following sites:

PROGRAMS ($ millions)	FY 2004	Total thru FY 2008
• Bloomington Armory: renovate electrical/mechanical/interior	$0.3	$3.0
• Northwest Armory, Chicago: upgrade electrical systems	0.3	2.8
• Macomb Armory: renovate electrical/mechanical/interior, install kitchen	0.3	2.6

Natural Resources

The Department of Natural Resources would receive $42.1 million in new appropriations under the Governor's capital plan, including $33.1 million from the Capital Development Fund and $9.0 million in Build Illinois Funds.

PROGRAMS ($ millions)	FY 2004	Total thru FY 2008
• Lake Michigan shoreline protection	$2.1	$7.0
• Flood Control ongoing projects (State & Federal)	0.6	6.2
• Conservation 2000 program	0.5	5.3
• Statewide Open Land Trust Program	0.5	5.0
• Statewide Museums Improvement Program grants	0.5	5.0
• Illinois River Basin Conservation Reserve Enhancement Program	0.5	4.8
• Statewide Well Capping Program	1.0	2.0
• Corps of Engineers – Match for environment/habitat restoration	0.2	2.0

Department of Revenue

The Governor is requesting $1.6 million in new capital appropriations for the Department of Revenue in FY 2004. The appropriations would pay for several projects at the Willard Ice Building: upgrade of building management controls, replacement of the dock exhaust system, and a complete upgrade of the plumbing.

Secretary of State

A total of $1.4 million in new appropriations from the CDF is recommended for the Secretary of State for asbestos abatement at the Capital Complex, and upgrades of the fire and security alarms at the Motor Vehicle Facility in Springfield.

State Board of Education

FY 2004 is to be the final year of a six-year $3.05 billion school construction program with new appropriations of $500.0 million in statewide grants for facility construction funded from the School Construction Fund. See pages 8 and 9 for more information on the School Construction Grant Program.

State Police

The Governor is requesting $1.2 million for the State Police from the Build Illinois Fund to improve safety at the Pawnee Facility firing range.

Transportation (IDOT)

The Governor has approved $450.0 million and $137.0 million in new appropriations for IDOT from the Transportation Series “A” Bond Fund and the Transportation Series “B” Bond Fund, respectively.

PROGRAMS ($ millions)	FY 2004	Total thru FY 2008
• Highways	$90.0	$450.0
• Mass transit grants to Northeastern Illinois	16.5	91.0
• Statewide grants for aeronautics	2.1	21.0
• Statewide grants for rails	3.0	20.0
• Downstate mass transit grants	0.5	5.0

Veterans' Affairs

The Governor's budget requests $2.2 million in new capital appropriations for the Department of Veterans' Affairs from the Capital Development Fund ($1.6 million) and the Build Illinois Fund ($0.6 million). The two facilities to receive appropriations are:

PROGRAMS ($ millions)	FY 2004	Total thru FY 2008
• Manteno VA facility: replace a/c chillers, emergency generators	$0.2	$1.8
• LaSalle VA facility: replace roofing/domestic water systems	0.1	0.4

TABLE 3: GENERAL OBLIGATION BOND FUNDS

FY 2004 Capital Expenditure Plan

($ Millions)

Fund	Approp. FY 2004	Spending from FY 2004 Appropriation FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Total, All Funds	**$4,525.3**	**$1,621.0**	**$1,518.0**	**$784.3**	**$454.6**	**$122.4**
New Appropriations	1,329.9	340.9	604.0	272.4	113.1	5.5
Reappropriations	3,195.4	1,280.1	914.0	511.9	341.5	116.9
Capital Development	**$1,841.8**	**$550.0**	**$433.0**	**$418.9**	**$323.0**	**$116.9**
New Appropriations	167.9	25.0	68.0	58.9	16.0	
Reappropriations	1,673.9	525.0	365.0	360.0	307.0	116.9
School Construction	**$1,029.2**	**$480.0**	**$519.2**	**$30.0**	**$0.0**	**$0.0**
New Appropriations	500.0	200.0	300.0			
Reappropriations	529.2	280.0	219.2	30.0		
Anti-Pollution	**$77.9**	**$26.9**	**$23.0**	**$24.9**	**$3.1**	**$0.0**
New Appropriations	19.0	1.9	6.0	8.0	3.1	
Reappropriations	58.9	25.0	17.0	16.9		
Transportation A	**$982.1**	**$400.0**	**$372.1**	**$165.0**	**$45.0**	**$0.0**
New Appropriations	450.0	90.0	180.0	135.0	45.0	
Reappropriations	532.1	310.0	192.1	30.0		
Transportation B	**$507.5**	**$156.0**	**$161.5**	**$121.5**	**$59.5**	**$0.0**
New Appropriations	137.0	23.0	42.5	46.5	25.0	
Reappropriations	370.5	133.0	119.0	75.0	34.5	
Coal Development	**$86.8**	**$8.1**	**$9.2**	**$24.0**	**$24.0**	**$5.5**
New Appropriations	56.0	1.0	7.5	24.0	24.0	5.5
Reappropriations	30.8	7.1	1.7			

SOURCE: Bureau of the Budget's Five-Year Expenditure Plan for the FY 2004 Budget.

<u>School Construction</u>

The School Construction Program is a grant program to help school districts fund building projects and renovations. School districts must provide an application to the State Board of Education and be approved, then pass a referendum to fund the local share-matching contribution of the project. When these requirements are met, the Capital Development Board awards schools a State grant from bond sale appropriations depending on the priority of needs—disasters, shortage of classrooms due to overpopulation, aging buildings, interdistrict reorganization, health/life safety hazards, accessibility for individuals with disabilities, and other unique priority situations. Applications for funding in FY 2004 are to be submitted by April 1, 2003.

Grant Applications per Fiscal Year	1998	1999	2000	2001	2002	2003 & 2004
Applications Received	57	197	157	166	204	141
Applications Entitled*	53	161	131	148	96[①]	8[†]

*"*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)

[①] There were 191 applications entitled in 2002, but approximately ½ were not able to secure their local share and were moved into the 2003/2004 cycles.

[†] FY 2003 entitlements are suspended except for emergency situations. This amount denotes estimated emergency situations.

Appropriations by Fiscal Year	1998	1999	2000	2001	2002	2003	2004
State appropriation (millions)	$30.0	$327.0	$540.0	$500.0	$740.0	$500.0	500.0

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. Public Act 92-0598, which was signed into law at the end of FY 2002, increased School Construction authorization by $930 million. The FY 2003 and estimated FY 2004 appropriations of $500 million each, will allow for the funding of 87% of the entitled FY 2002 projects. Approximately 25 entitled districts will not receive funding even with the $930 million increase in school construction authorization. These numbers do not include FY 2003 applications. The Illinois State Board of Education is not actively soliciting applications, but they are still receiving them from local school districts.

Grants are funded from the School Construction portion of general obligation bond sales. 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 million a year (approximately 75% of the additional liquor tax increase from IL FIRST), $60 million a year from the cigarette tax ($5 million a month from the cigarette tax increase enacted in FY 2002 to begin April 1, 2003), and 1/7th of the 7% Telecommunications Excise tax from the School Reform Act (approximately $110 million a year).

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

Note: Illinois Economic and Fiscal Commission estimates

**The liquor tax transfer was suspended for FY 2002 and FY 2003 as part of the budget agreement.*

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

G. O. Bond Retirement and Interest Fund ($ millions)	**1998**	**1999**	**2000**	**2001**	**2002**	**Est. 2003**	**Est. 2004**
Debt Service tied to transfers from School Infrastructure Fund	n/a	$7.0	$21.0	$49.0	$73.2	$125.8	$165.0

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 required.

Short-Term Borrowing

State short-term debt may be incurred for two reasons—to resolve cash flow problems, or to meet deficits caused by emergencies or failures of revenue.

1) During Fiscal Year borrowing: If the short-term debt is to be used only for cash flow purposes, up to 5% of the State's appropriations for that fiscal year may be incurred and must be repaid by revenues by the end of that fiscal year.

The State has done similar short-term borrowing in the past from 1983 to 1996, ranging from $100 million to $900 million:

Date Issued	Amount Issued ($ millions)	Date Retired
June-July 1983	$200	May 1984
February 1987	$100	February 1988*
August 1991	$185	June 1992
February 1992	$500	October 1992*
August 1992	$600	May 1993
October 1992	$300	June 1993
August 1993	$900	June 1994
August 1994	$687	June 1995
August 1995	$500	June 1996
July 2002	$1,000	June 2003 expected
Source: Bureau of the Budget *Across fiscal year borrowing		

At the beginning of FY 2003, $1.0 Billion in federally tax-exempt Revenue Anticipation Certificates were sold (July 16, 2002) at an interest rate of 1.43% to meet the cash flow problems of the State. The proceeds from this sale were available July 23 and disbursed as follows:

- $700 million into the general funds to relieve general cash flow pressures and to provide for the payment of appropriated amounts for medical assistance under the Illinois Public Aid Code- to be paid back from the General Revenue Fund.
- $150 million into the Income Tax Refund Fund-to be paid back from this fund.
- $150 million into the Long Term Care Provider Fund to pay medical providers for their medical assistance under the Public Aid Code-to be paid back from this fund.

2) Across Fiscal Year borrowing: If used for a deficit due to emergencies or failures of revenues, up to 15% of the State's appropriations for that fiscal year may be incurred and must be repaid within one year.

Although the Governor's Budget requested $700 million in short-term borrowing to be issued in late FY 2003 under the failure of revenues provision of the Act, the Governor, Comptroller and Treasurer are working on a $1.5 billion short-term borrowing plan instead to pay off overdue bills: $750 million for Medicaid ($200 million is for non-general revenue fund), $475 million for corporate and personal income tax refunds, and $275 million for school districts. The notes would be sold before the end of FY 2003 and be paid back within a year during FY 2004. This would increase FY 2003 short-term borrowing for the General Revenue Fund to $1.45 billion and total short-term borrowing to $2.5 billion. The initial $1.0 billion in short-term borrowing is to be paid off by the end of FY 2003.

"Tobacco Securitization" General Obligation Bonds

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

The Governor's Budget does not include the issuance of such bonds. And although there has been some interest in the legislature to issue these bonds, it most likely will not occur due to current problems in the tobacco bond market. An Illinois Madison County Circuit Court ruled against Altria Group, Inc. (owners of Phillip Morris USA Inc.) in a case where smokers sued the company saying they were led to believe light cigarettes were healthier than regular cigarettes. In the March 21, 2003 judgment, the Altria Group was to pay $10.1 billion in damages, or put up a $12 billion bond while they are appealing the ruling. This ruling started a domino effect that is still being played out in the bond market. Immediately, Phillip Morris stated that the appeal bond amount was so high, they would not be able to make their Master Settlement Agreement payments of $2.5 billion on April 15 to all of the states, and that they may have to declare bankruptcy.

Within weeks of these statements, Moody's Investor Service (March 31), Fitch Inc. (April 3), and Standard & Poor's (April 9) had all downgraded Phillip Morris' credit ratings. Fitch also put a negative watch on the debt for R.J. Reynolds Tobacco Company since they will be facing a similar lawsuit in Madison County in October 2003. Moody's downgraded all $19.85 billion of tobacco bonds down 2-3 levels on May 31st, while Fitch downgraded $18 billion of tobacco bonds issued down two levels from A+ to A- on April 3. This is due to the fact that tobacco bonds are to be paid back from the Master Settlement Agreement payments made by the tobacco companies, and Phillip Morris constitutes about 53% of those payments (Source: Moody's). On April 18, Standard & Poor's lowered the ratings on tobacco bonds with maturities after

April 15, 2004, since the MSA payment for the next year was made this April. S & P waited before they made their decision, but decided to make the downgrade after the 12.9% drop in first-quarter shipments in the tobacco industry was reported. Fitch has tobacco bonds, as well as Altria and R.J. Reynolds and their subsidiaries on negative watch for possible further downgrades. Moody's lowered Altria and Philip Morris' credit ratings another level, down to Baa2.

Virginia and California had delayed their respective tobacco bond issues of $767 million and $2.3 billion, but California, as recently as April 22, stated that it may go ahead with a smaller deal, for a shorter term, possibly 10 years, saying that the market may be willing to absorb that type of deal. Oregon still plans to issue about $470 million of state appropriation bonds that are to be paid off with tobacco settlement receipts. Market trading had gone down to 65 cents on the dollar, but was up between 75 and 85 cents on the dollar on April 20th. Another outcome of the Madison County court case is the downgrading by Moody's of California's revenue anticipation notes sold last fall and scheduled to mature on June 20, 2003. The California tobacco bond sale was to raise cash to redeem these notes.

In an April 8 Cook County Circuit Court case, the Judge issued a 10-day restraining order blocking the State of Illinois from collecting the $3 billion in punitive damages awarded it in the Madison County case, since under the 1998 Master Settlement Agreement the State released any additional claims it could make on tobacco companies. On April 14, 2003, the Judge in Philip Morris' case lowered the appeal bond to $800 million in cash paid in four installments beginning in September, and a long-term $6 billion note to be held in escrow until the case has been resolved. Illinois had already received $99.6 million this fiscal year and did receive its April 15th payment of $207.0 million.

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

The way most states have structured tobacco settlement bonds is by setting up a special-purpose entity designed to be bankruptcy proof. The state then transfers all or a portion of settlement payments to the entity. The entity then issues the bonds, pledges a portion of each annual settlement payment for debt service, and assumes all of the risk. Bonding allows the state to receive its long-term income streams now instead of over a long period of time. However, this process is costly as the state loses value on the dollar due to minimizing risk and by paying interest over the years to pay it off. When issuing true securitization bonds, a state has to give up a percentage of the settlement proceeds to the entity and give a discount to bond buyers. This "discount" rate is determined by a number of market factors. The best discount rate that a state has received from tobacco settlement bonds is the 25% discount that Wisconsin received in its tobacco bond sale. In other words, the actual cash receipt from the bond sale would be $0.75 on the dollar. (For a more detailed look at "Tobacco Securitization" please see the IEFC's report "Illinois Cigarette Tax and Tobacco Settlement", pages 17-21.)

Pension Obligation Bonds

On April 7, 2003, Public Act 93-0002 was signed into law, which authorizes the State to issue $10.0 billion in general obligation pension obligation bonds. The bonds would be sold for the purpose of making the required State contributions to the designated retirement systems in the amount remaining unpaid in FY 2003 and the amount to be paid in FY 2004. After these payments are made, the balance of the Pension Contribution Fund will be appropriated to the designated retirement systems in the same proportion as each retirement system's portion of the total actuarial reserve deficiency of the systems. The Bureau of the Budget will determine these amounts within 30 days after the bond proceeds are deposited into the Pension Contribution Fund.

Four firms and 11 co-managers have been named to underwrite Illinois' pension obligation bond issue. The four managers will be Bear, Stearns & Co.; Goldman, Sachs & Co., UBS PaineWebber Inc., and Chicago-based ABN AMRO Financial Services. The majority of co-managers qualify as minority firms.

Some governments have elected to issue pension obligation bonds to reduce their unfunded actuarial liability. Pension obligation bonds must be issued on a taxable basis because current federal tax law restricts the investment of the proceeds of tax-exempt bonds in higher-yielding taxable securities. From a purely financial perspective, issuing pension obligation bonds can produce savings for a government if the interest rate paid on the bonds is less than the rate of return earned on proceeds placed in the pension plan [Source: The Government Finance Officers Association].

Retirement System ($ Millions)	FY 2002 Unfunded Accrued Liability	FY 2002 Annual State payment
State Employees (SERS)	$6,617	$386.1
Downstate Teachers (TRIP)	20,681	814.7
State Universities (SURS)	6,839	*240.4
General Assembly	131	4.7
Judges	677	27.5
TOTAL	**$34,945**	**$1,473.5**
Source: Bureau of the Budget, General Obligation Bonds Series of December 2002 Official Statement		
*includes self-managed plan		

FY 2003 State appropriations for the five retirement systems are estimated to be $1.635 billion. Normally counties and municipalities issue pension obligation bonds. Standard & Poor's says that approximately $10 billion in pension obligation bonds were sold in the 1990s by state and local governments. New Jersey issued approximately $2.75 billion of POBs in 1997. The bonds' interest rate was 7.64%, but the pension funds lost 9% in 2000 and –10% in 2001, causing the funds to decline in value from $94 billion to $72 billion. New Jersey had $1 billion in pension shortfalls as of January 2003. Other states are looking at issuing pension obligation bonds to help with their budget shortfalls, such as California and Wisconsin.

General Obligation Bond Authorization

In May of 2000, the Governor approved Public Act 91-0710, which separated refunding from other bond authorizations and increased general obligation authorization overall by $858.8 million, for a total authorization of $17,036,657,592. In June of 2001, new project authorization was increased by $1.067 billion and in June of 2002 again by $1.643 billion.

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

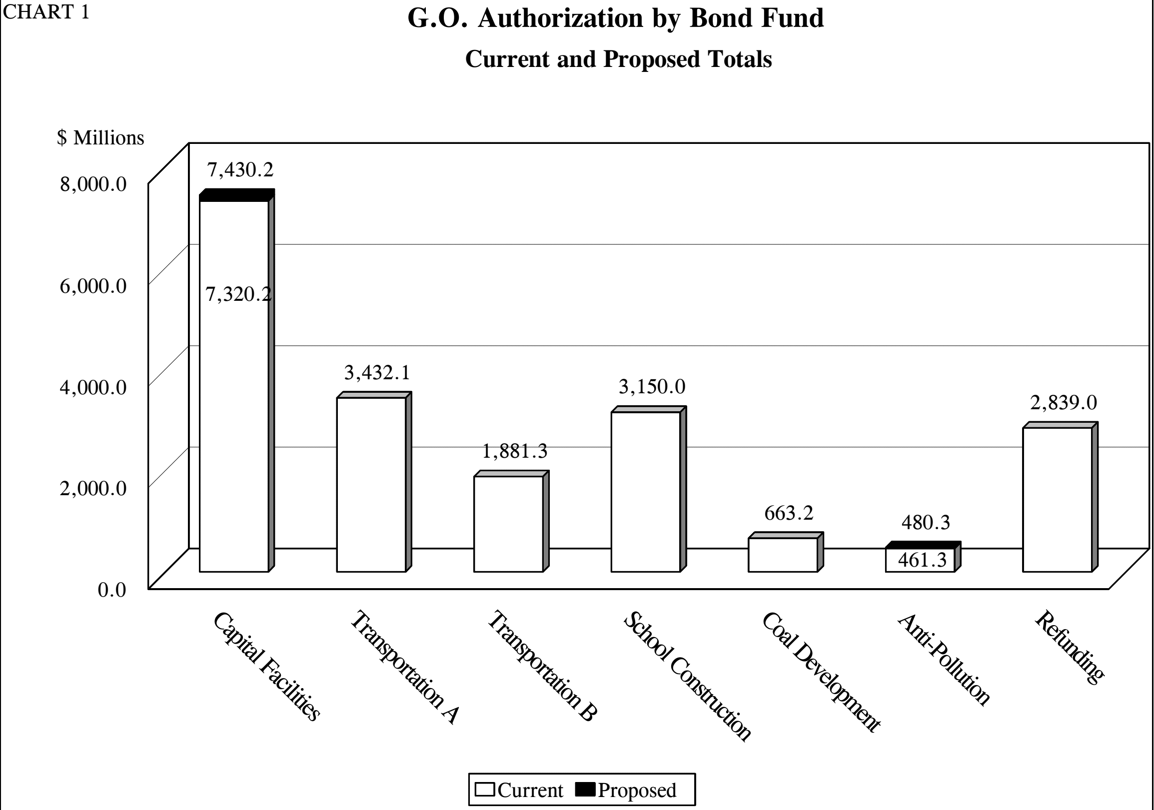
The Governor is requesting an increase in G.O. bond authorization of $129.0 million, bringing the total G.O. bond authorization (excluding refunding) to $17.037 billion, a 0.8% increase over the current authorization level. **(NOTE: This authorization level does not include the $10 billion in pension obligation bonds).** The additional authorization is requested as follows: $110.0 million in the Capital Facilities category and $19.0 million in the Anti-Pollution category. See Table 5.

TABLE 4: PROPOSED G.O. BOND AUTHORIZATION CHANGES

($ in Millions) BOND TYPE	CURRENT AUTHORIZATION	PROPOSED NEW AUTHORIZATION	TOTAL PROPOSED AUTHORIZATION
Multiple Purpose:			
Capital Facilities	$7,320.2	$110.0	$7,430.2
Transportation Series A	3,432.1		3,432.1
Transportation Series B	1,881.3		1,881.3
School Construction	3,150.0		3,150.0
Anti-Pollution	461.3	19.0	480.3
Coal Development	663.2		663.2
Subtotal	**$16,908.1**	**$129.0**	**$17,037.1**
Refunding	2,839.0	**0.0**	2,839.0
TOTAL	**$19,747.1**	**$129.0**	**$19,876.1**
Tobacco Securitization FY03 Operating Purposes	750.0	0.0	750.0
Pension Obligation Bonds	0.0	$10,000.0	$10,000.0

The proposed increase of $110.0 million in the Capital Facilities category represents a 1.5% increase over the current level. The requested $19.0 million increase in the Anti-Pollution authorization represents a 4.1% rise in that category. Chart 1 illustrates the Governor's proposed additions and new totals for General Obligation authorization by bond fund.

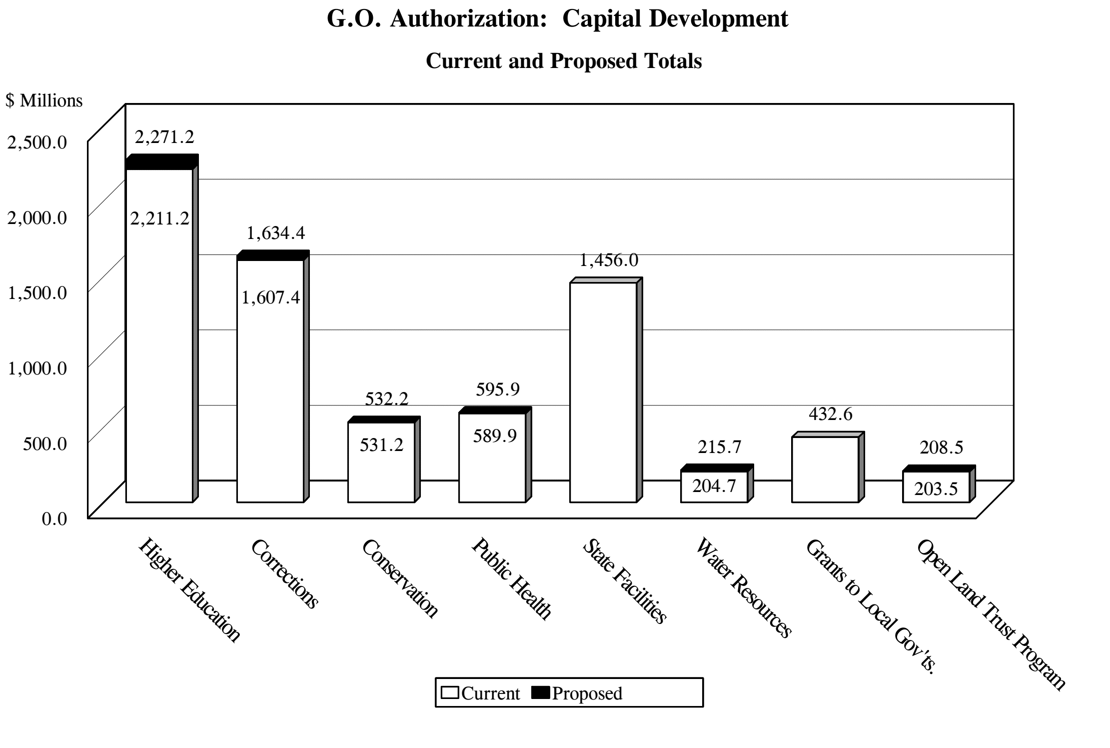
CHART 1



Current authorization as enacted; proposed based on Governor's FY 2004 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 $110.0 million would be allocated.

CHART 2



Current authorization as enacted; proposed based on Governor's FY 2004 Budget Request

Higher Education would receive $60.0 million of the $110.0 million Capital Development Fund authorization increase, representing a 2.7% increase in that category. Corrections would receive the next largest increase in authorization, at $27.0 million (1.7% increase). Authorization for Water Resources is to increase by $11.0 million, a 5.4% increase, while Public Health facilities will receive $6.0 million, a 1.0% increase. Two other capital programs received the following increases: Open Land Trust by $5.0 million (2.5%) and Conservation by $1.0 million (0.2%).

Also requested in FY 2004 is an increase of $15.0 million for the Build Illinois program, all for Business Development. This proposed increase in authorization from $3.806 billion to $3.821 billion represents a 0.4% increase.

Bond Sales

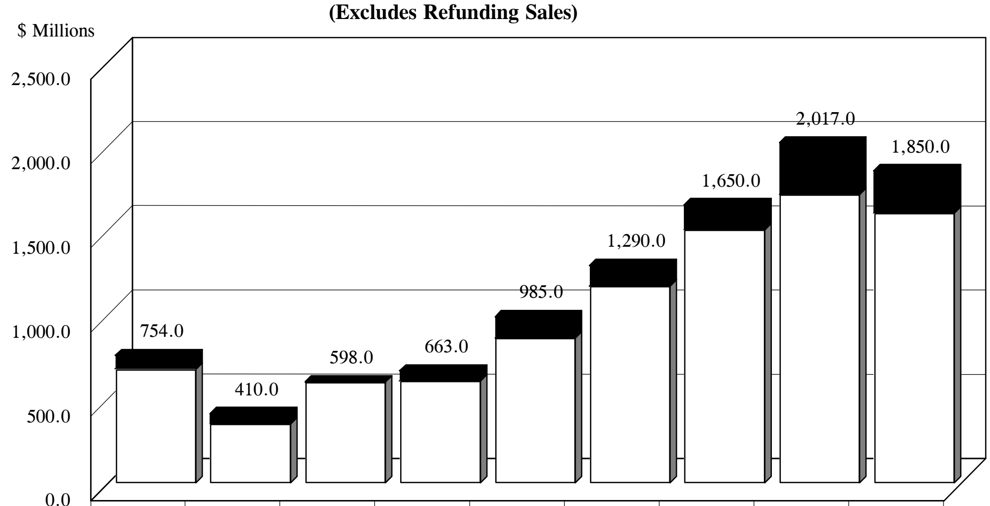
The State's capital program is primarily financed through the issuance of general obligation bonds, which are backed by the full faith and credit of the State. **The figures in the following sections for bond sales, principal outstanding and debt service do not include the proposed issuance of $10.0 billion in Pension Obligation bonds.** The Pension Obligation bonds, which would not affect the capital plan, will be issued in several series depending on market conditions.

For FY 2004, general obligation bond and Build Illinois bond sales of $1.6 billion and $250.0 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*	2004*
State-Issued Revenue	80.0	60.0	0.0	60.0	125.0	125.0	150.0	307.0	250.0
General Obligation	674.0	350.0	598.0	603.0	860.0	1,165.0	1,500.0	1,710.0	1,600.0

☐ General Obligation ■ State-Issued Revenue

* BOB Estimates

As of April 2003, $1.19 billion of new project general obligation bonds will have been sold in FY 2003. An additional $80.0 million in general obligation college savings bonds were sold in October 2002, and $1.0 billion in Revenue Anticipation Certificates were sold in July of 2002. The Bureau of the Budget also sold $182.2 million of Build Illinois new project bonds in November of 2002.

Refunding sales for FY 2003 include $564.9 million in general obligation bonds sold in August of 2002, and Build Illinois bonds sales of $54.3 million sold in December of 2002 and $75.8 million in March 2003.

The Bureau has proposed sales of $1.6 billion of general obligation bonds for projects in FY 2004. This projected level of bond sales would be 5.9% lower than the estimated level for FY 2003 of $1.7 billion. The Bureau also has proposed sales of $250.0 million of Build Illinois bonds for projects in FY 2003, 18.6% lower 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

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

At this time, Illinois continues to have a moderate debt rating, according to Fitch Ratings, even after FY 2002's economic downturn. The rating agencies are waiting to assess Illinois' debt after the pension obligation bonds are issued and Illinois' budget is enacted. The debt rating is based on debt to personal income, debt per capita and direct debt service as a percentage of revenues.

Standard & Poor's and Fitch have both reported that they will be watching all States for their revenue collections over the next few months, because it will be difficult to counter any further erosion in revenues by the end of the fiscal year. Standard & Poor's has 11 states on negative outlook, and has downgraded six states since 2001. Moody's now has 16 states on negative outlook, and has downgraded eight states since 2001, the most recent being Oregon from Aa2 to Aa3. Ratings downgrades may put some states in the same credit level as they were in the 1990s.

The rating agencies are watching states' budget actions to see how they will resolve having "liquidity problems with less flexibility". Standard & Poor's says that with States issuing more debt, their "debt affordability" will be key to their credit analysis. Fitch says that the biggest challenge will be FY 2004, where states will have to either raise taxes and/or incur deeper cuts in their budgets. Fitch states that the one-shot fixes after September 11th were "akin to treading water", and states will need to look at stronger, more broad based measures to deal with long-term financial problems. "The time for temporizing measures has come and gone, and it's time to look at problems squarely and decide what is an appropriate step to take in order to get back into better financial health." (Fitch)

History of Illinois' Bond Rating

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

Standard & Poor's affirmed its AA rating but revised its outlook upward on the State's credit from stable to positive in the summer of 2000, citing "a deep and diversified economy, an improving financial condition, moderate debt levels," and State cash balances that were $1.351 billion at the end of Fiscal Year 1999 (the highest in the State's history). Due to the economy, S&P revised Illinois' outlook from positive to stable in FY 2002. Standard & Poor's has no states' GO ratings listed with a positive outlook at this time (10/11/2002). States are under great ratings pressures caused by the slow pace of economic recovery. With FY 2003 deficit balances, lack of reserves, and one-time measures that can't be repeated, budgets will have little room to maneuver. Even if economic recovery picks up, there will be a lag in revenues getting better, and a longer lag in ratings upgrades for states.

ILLINOIS

RATING AGENCIES	***JULY 1997***	***JUNE 1998***	***JUNE 2000***
Fitch Ratings	***AA***	***AA***	***AA+***
Standard & Poor's	***AA***	***AA***	***AA***
Moody's Investor Service	***Aa3***	***Aa2***	***Aa2***

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. Moody's placed many states on a negative watch list, including Illinois, at the end of FY 2002 due to the economic problems states were going through nationwide.

MAXIMUM RATING POSSIBLE
AAA or Aaa

The Governor, Comptroller and Treasurer agreed on April 17, 2003, to a $1.5 billion short-term borrowing plan to pay off overdue bills. Once this plan was reported, Moody's placed the State of Illinois on a watch list for a possible downgrade. Moody's explained that in addition to the short-term borrowing plan, a combination of factors led to this change in status, including the increase by $10 billion for the second year in a row for the state's unfunded pension liability, now at $35 billion. Other factors involved are the downward revision in expected General Revenues, the delay of Illinois' 2002 GAAP financial statement, and the State's budget proposals relying on one-time measures like freeing up revenues from the pension obligation bond sale and the sale of assets. If a downgrade occurs it would affect General Obligation, Build Illinois, Civic Center, and McCormick Place Expansion Project bonds. Moody's will meet with Illinois officials and conclude its review of the State's rating prior to any bond issuances by the State.

Debt Comparisons: Illinois v. Other States

Table 6 shows Illinois' ranking in comparison with the top ten states for the most net tax-supported debt per capita (SOURCE: Moody's 2002 State Debt Medians). In 2001, Illinois was ranked 12th with $908 of direct debt per capita compared to the national average of $810.

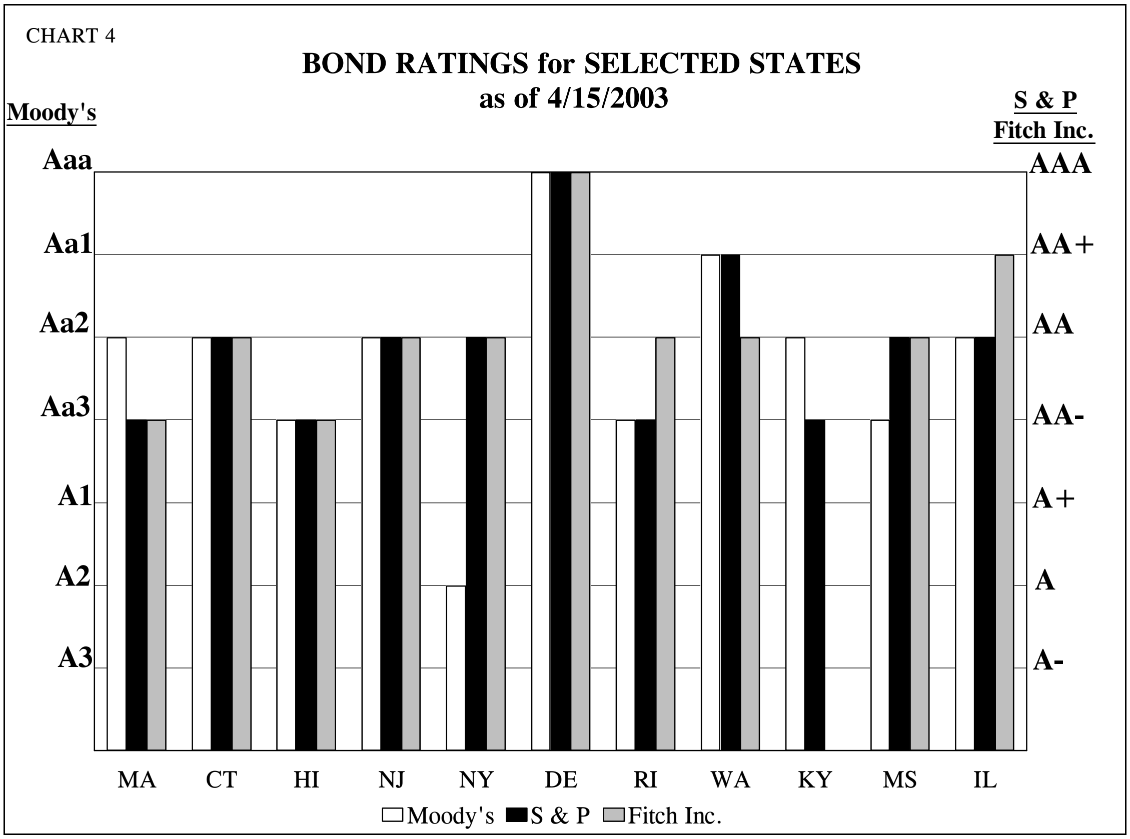
Illinois' debt as a percentage of personal income is 2.8% which places us 9th highest of all states. The national median is 2.3%. Chart 4 compares the bond ratings for the same ten states listed in Table 6.

TABLE 5: Net Tax-Supported Debt Per Capita in 2001

National Per Capita Mean = $810

RANK	STATE	DIRECT DEBT PER CAPITA
1	Massachusetts	$3,267
2	Connecticut	$3,240
3	Hawaii	$2,936
4	New Jersey	$2,066
5	New York	$2,045
6	Delaware	$1,650
7	Rhode Island	$1,552
8	Washington	$1,383
9	Kentucky	$1,046
10	Mississippi	$ 996
12	**Illinois**	**$ 908**

Range: Massachusetts ($3,267) to Nebraska ($34)



Bond Ratings

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

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

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

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

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

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

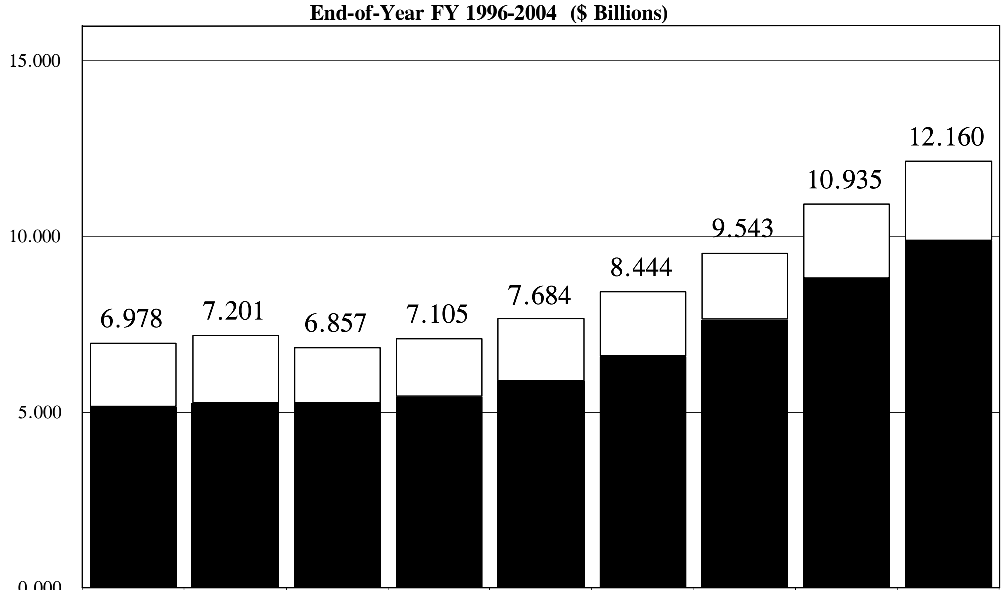
Debt Outstanding

Chart 5 indicates that at the end of FY 1996, State-supported principal outstanding totaled $6.978 billion. By the end of FY 2002, this level increased to $9.543 billion. Total outstanding State-supported principal expected for FY 2003 is $10.935 billion, a 14.6% increase over the FY 2002 level. FY 2004 is expected to increase 11.2% to $12.160 billion in outstanding principal.

CHART 5

STATE-SUPPORTED PRINCIPAL OUTSTANDING

End-of-Year FY 1996-2004 ($ Billions)



	1996	1997	1998	1999	2000	2001	2002	2003*	2004*
State-Issued Revenue	1.818	1.924	1.589	1.649	1.798	1.844	1.913	2.124	2.278
General Obligation	5.160	5.277	5.268	5.456	5.886	6.600	7.630	8.811	9.882

General Obligation State-Issued Revenue

Sources: Bureau of the Budget

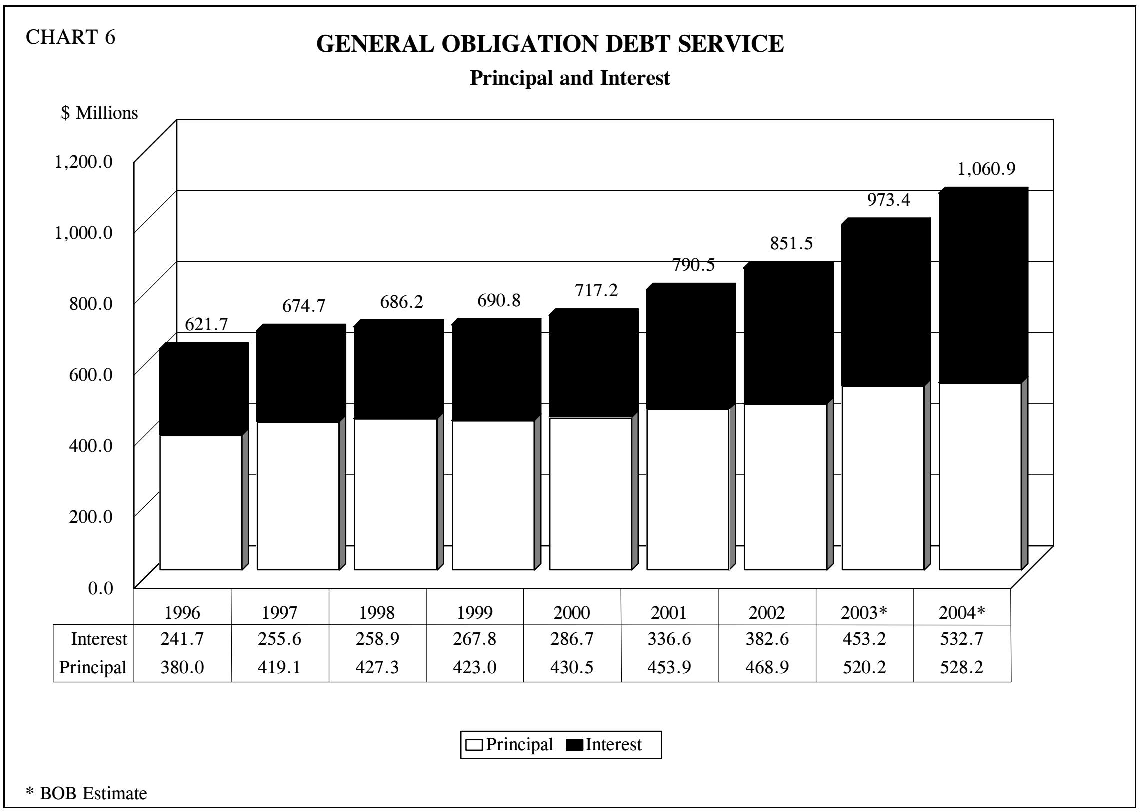
As Chart 5 demonstrates, the level of outstanding general obligation principal has been growing steadily. At the end of FY 1996, the State had $5.160 billion of outstanding general obligation principal. This level increased to $5.886 billion at the end of FY 2000. This represents a $726 million increase from FY 1996 to FY 2000, averaging $181.5 million per year. From FY 2000 to the FY 2004 estimate of $9.882 billion, outstanding principal will have increased an average of $999.0 million per year, with half the increase related to Illinois FIRST programs in addition to the baseline capital program.

Starting with $1.818 billion in FY 1996, State-issued outstanding principal (made up of Build Illinois and Civic Center bonds) has fluctuated between $1.589 billion to an estimated $2.278 billion in FY 2004. After a $335.0 million drop from FY1997 to

FY 1998, outstanding principal has increased by an average of $114.8 million a year up to the estimated FY 2004 level.

Debt Service

Based on expected general obligation bond sales, debt service for the capital program is expected to increase from $973.4 million in FY 2003 to $1.061 billion in FY 2004. This is an increase of $87.6 million or 9.0% in debt service payments. (This number may change due to refunding bond issues planned for FY 2004.) As shown in Chart 6, the $1.061 billion would be comprised of an estimated $528.2 million in payments on principal and $532.7 million in payments on interest. In FY 2003, debt service will consist of $520.2 million in principal and $453.2 million in interest payments.

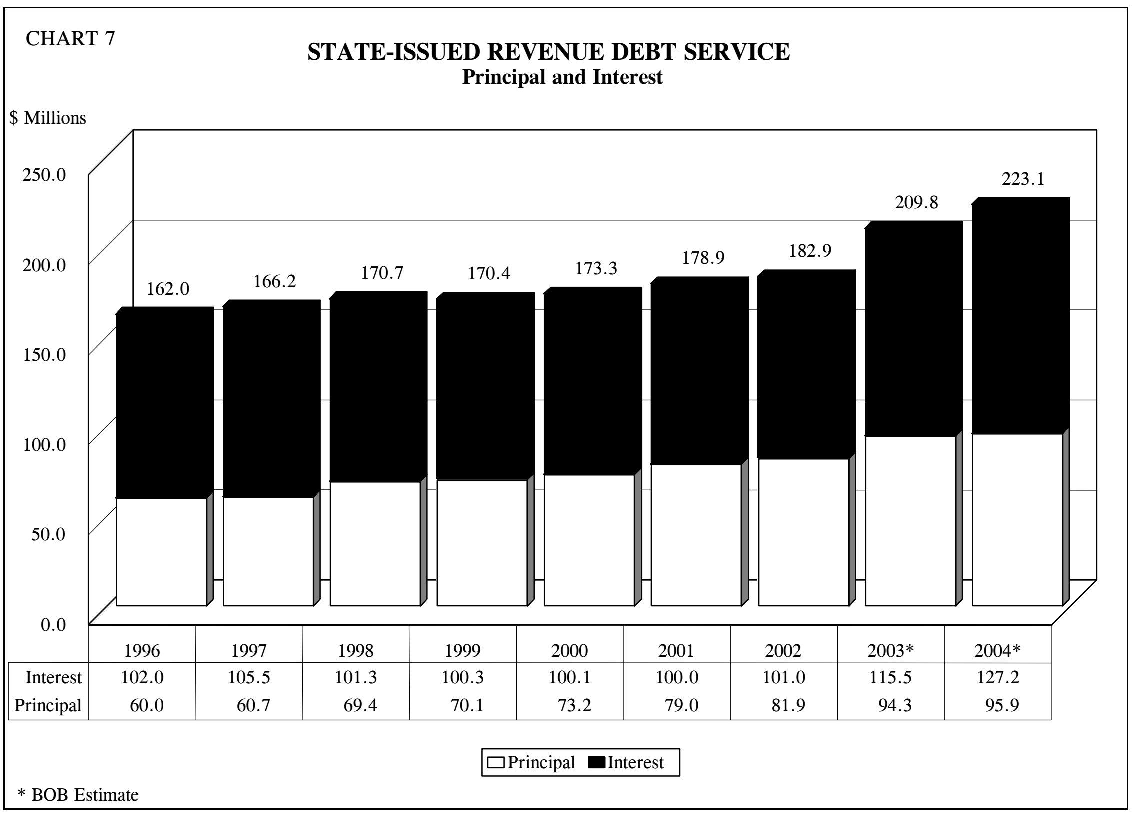


	1996	1997	1998	1999	2000	2001	2002	2003*	2004*
Interest	241.7	255.6	258.9	267.8	286.7	336.6	382.6	453.2	532.7
Principal	380.0	419.1	427.3	423.0	430.5	453.9	468.9	520.2	528.2

G.O. debt service is paid from the General Obligation Bond Retirement and Interest Fund, which receives transfers from the Road Fund (for Transportation A/highways), the School Infrastructure Fund, and the General Revenue Fund. In FY 2003, the Road Fund is estimated to transfer approximately $215.0 million (22.1%) of G.O. debt service, the School Infrastructure Fund $128.0 million (13.2%) and the General Revenue Fund $630.0 million (64.7%). It is estimated that Road Fund transfers will pay $221.0 million (20.8%), the School Infrastructure Fund $165.0 million (15.6%), and the General Revenue Fund $675.0 million (63.6%) of the debt service payment for FY 2004.

General Obligation Debt Service				
	FY 2003		Estimated FY 2004	
($ Millions)	Amount	% of Total	Amount	% 0f Total
Road Fund	$215	22.1%	$221	20.8%
School Infrastructure Fund	128	13.2%	165	15.6%
General Revenue Fund	630	64.7%	675	63.6%
TOTAL	**$973**	**100.0%**	**$1,061**	**100.0%**

Chart 7 shows debt service for Build Illinois and Civic Center bonds. FY 2003 debt service will be approximately $209.8 million, an increase of 14.7% from the FY 2002 level. FY 2004 is estimated to be $223.1 million, an increase of 6.3% over the FY 2003 level.



Fiscal Year 2003 debt service for Build Illinois bonds is expected to be $195.9 million, comprised of $88.4 million in principal payments and $107.5 million in interest. FY 2004 Build Illinois debt service payments are estimated to be $209.2 million, of which $89.7 million will be for principal payments and $119.5 million for interest payments.

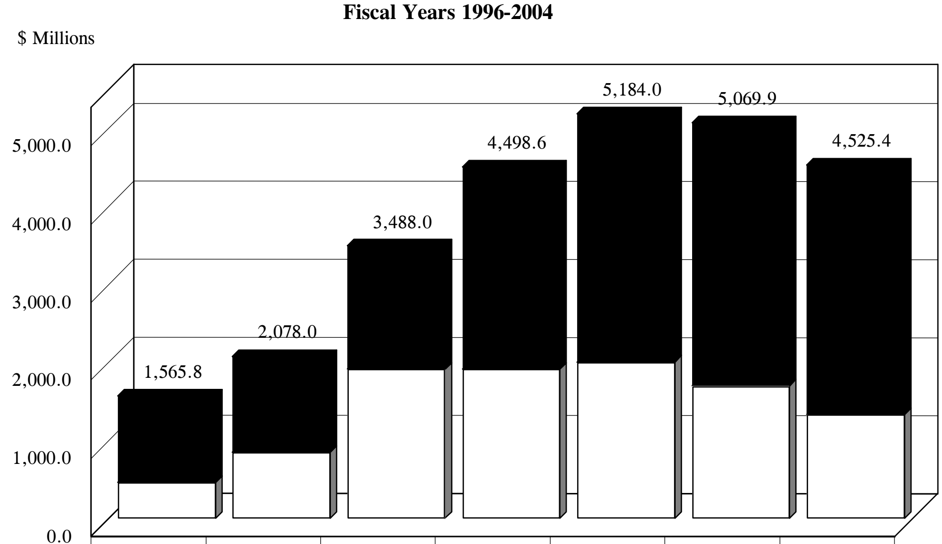
Debt service for Civic Center bonds in FY 2003 will total $13.8 million with the principal portion equaling $5.9 million and interest payments equaling $8.0 million. Civic Center bonds debt service payments for FY 2004 will be approximately $13.9 million, comprised of $6.2 million in principal and $7.7 million in interest.

Appropriations

The FY 2004 budget book contains requests for capital appropriations from general obligation bond funds totaling $4.525 billion. The total includes $1.330 billion in new general obligation appropriations and $3.195 billion in reappropriations, which represent a $362.9 million decrease in new appropriations and a $181.6 million decrease in reappropriations from the current FY 2003 levels. The total appropriations requested from general obligation bond funds for FY 2004 represent a decrease of $544.6 million, or 10.7%, over FY 2003. The annual appropriations from FY 1998 to the recommended FY 2004 amounts are illustrated in Chart 8.

CHART 8

General Obligation Appropriations
Fiscal Years 1996-2004



	1998	1999	2000	2001	2002	2003*	2004*
Reappropriations	1,106.7	1,231.0	1,577.0	2,586.2	3,178.9	3,377.0	3,195.4
New Appropriations	459.1	847.0	1,911.0	1,912.4	2,005.1	1,692.9	1,330.0

☐ New Appropriations ■ Reappropriations

*FY 2003 and FY 2004 based on budget book

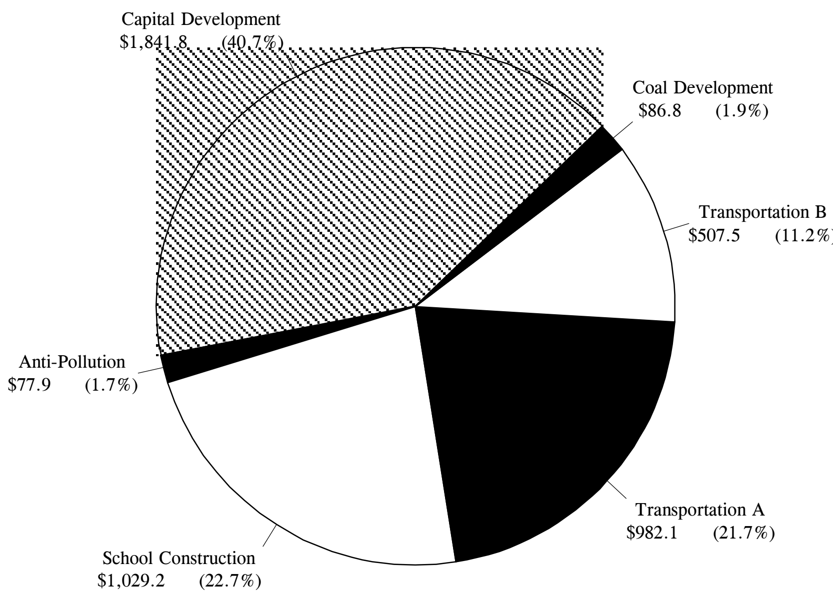
Charts 9 and 10 provide additional information on the requested general obligation appropriations for FY 2004 broken down by bond fund. Chart 9 shows the approximate percentages each bond fund represents of the total appropriation request (includes both new and reappropriations). As shown in this chart, the $1.842 billion for Capital Development comprises 40.7% of the total. School Construction funds would become the second largest segment of general obligation appropriations, funded at $1.029 billion, or 22.7% of the total. The $982.1 million for Transportation A funds would account for 21.7% of the total annual appropriations. Transportation B funds account for $507.5 million, or 11.2% of the total. Coal Development and Anti-pollution appropriations would represent $ 86.8 million (1.9%) and $77.9 million (1.7%), respectively.

CHART 9

FY 2004 G.O. Appropriations

By Bond Fund ($ Millions)

Total: $4.525 Billion = 100%

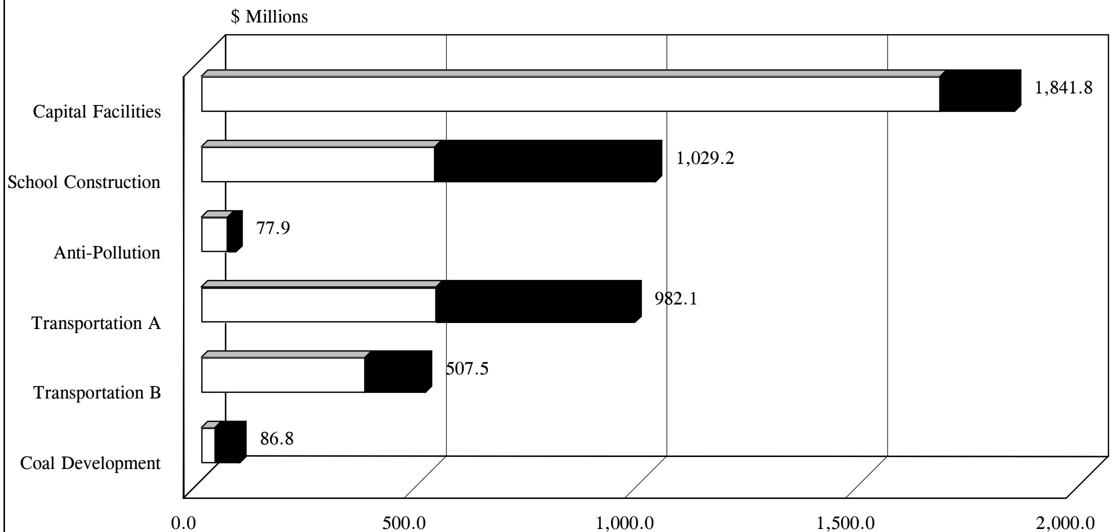


Note: based on FY 2004 budget book

Chart 10 shows the requested appropriations broken down by categories into new and reappropriations. The Governor's FY 2004 budget requests new G.O. bond fund appropriations totaling $1.330 billion for all general-purpose categories. New appropriations would be highest for School Construction ($500.0 million) and Transportation A ($450.0 million). Capital Facilities and Transportation B categories would receive new appropriations of $167.9 and $137.0 million, respectively. The Coal Development category would receive $56.0 million in new appropriations, and the Anti-Pollution category would receive $19.0 million.

CHART 10

FY 2004 G.O. Appropriations
New v. Reappropriations



	Capital Facilities	School Construction	Anti-Pollution	Transportation A	Transportation B	Coal Development
Re-appropriations	1,673.9	529.2	58.9	532.1	370.5	30.8
New Appropriations	167.9	500.0	19.0	450.0	137.0	56.0

☐Re-appropriations ■New Appropriations

Note: based on FY 2004 budget book

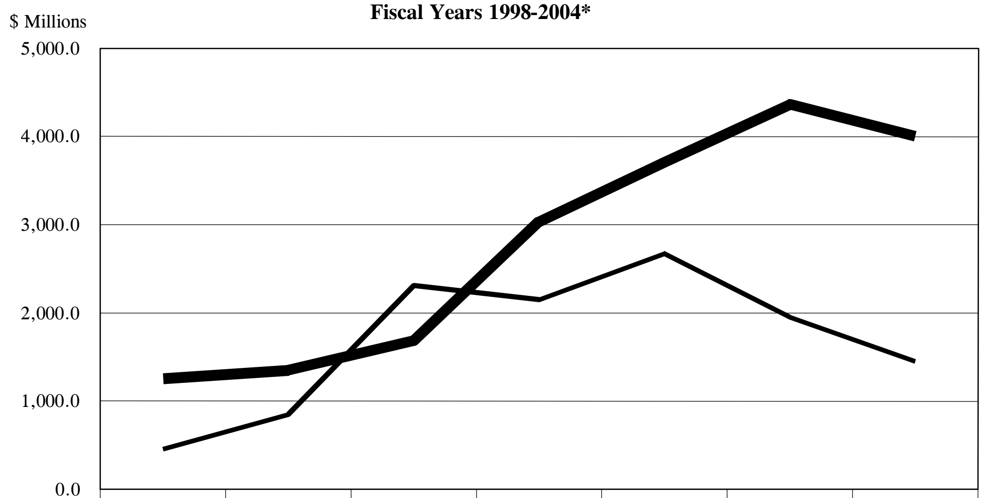
The FY 2004 appropriations request from Build Illinois bond fund equals $929.7 million, made up of $123.4 million in new appropriations and $806.3 million in reappropriations. The total appropriations request for FY 2004 from all bond funds combined is $5.455 billion, which is a 13.7% decrease from the FY 2003 level of $6.320 billion.

Chart 11 shows the amount of new appropriations versus reappropriations of all bond funds combined for fiscal years 1998 through 2004. 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 new appropriations dropped below that level and they have declined even more in FY 2004. The Governor is requesting $1.453 billion in new appropriations from all bond funds, a decrease of 25.7% over the previous fiscal year.

CHART 11

New Appropriations v. Reappropriations of Combined Bond Funds

Fiscal Years 1998-2004*



	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003*	FY 2004*
Reappropriations	1,261.4	1,352.4	1,685.3	3,038.6	3,714.7	4,364.9	4,001.6
New Appropriations	461.6	852.0	2,312.5	2,151.8	2,673.0	1,955.1	1,453.4

Reappropriations New Appropriations

Note: based on FY 2004 budget book.
Includes Build Illinois and Civic Center Bond Funds

The Governor's proposed budget includes an appropriation to the Bureau of the Budget in the amount of $1.3 million for costs of issuance associated with the general obligation bond program (to be paid from the Capital Development 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.

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