2005

BONDED INDEBTEDNESS REPORT

OF THE STATE OF ILLINOIS

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
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Commission on Government Forecasting and Accountability

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INTRODUCTION

One of the statutory responsibilities of the Commission on Government Forecasting and Accountability is to examine the long-term debt of the State of Illinois. Illinois issues several forms of formal long-term debt. State-supported bonds include the State's general obligation bonds, State-issued revenue bonds, and locally-issued revenue bonds that are repaid or secured by the State. Non-State-supported debt consists of those bonds which are issued by authorities created by the State, but for which the State is said to have only a moral obligation or no obligation to repay. In addition, the State incurs several other types of long-term debt not represented by formal debt instruments and, therefore, not covered by this report. These include unfunded pension liabilities, Certificates of Participation, and long-term leases.

This report, formerly the Bond Watcher, provides information on the levels of State-supported and non-State-supported bond debt using information provided by the Governor's Office of Management and Budget and the Office of the Comptroller. In an ongoing attempt to provide clear concise information, please note the table entitled Bonds at a Glance. Shown on page ii, the table provides a quick reference for frequently asked questions regarding bond sales, debt service, and bond ratings.

General Obligation Bonds are sold for capital development projects, school construction programs, anti-pollution programs, coal and energy development programs, and transportation projects. Transportation bonds include series A bonds for roads and bridges, and series B bonds for rail, mass transit and aviation projects.

Additional information relating to the State of Illinois bonded indebtedness may be obtained upon request.

2005 Bonded Indebtedness Report
EXECUTIVE SUMMARY

- Using CGFA's FY 2006 G.O. debt service estimate of $1.656 billion divided by FY 2004's appropriated expenditures of $26.717 billion, the State is at approximately 6.2% of its 7.0% bond limit. The Office of Management and Budget has followed the debt responsibility measures for FY 2005 bond issues. In FY 2005, 32.6% of G.O. bonds and 37.5% of Build Illinois bonds were sold competitively, which are both in excess of the minimum requirement of 25%.

- Estimated bond sales (per GOMB's FY 2006 Capital Plan) for FY 2006 are $1.165 billion, consisting of $1.015 billion in general obligation bonds and $150 million of Build Illinois bonds.

- FY 2006 General Obligation principal outstanding is expected to increase 2.3% to $20.3 billion., while State-issued revenue bonds outstanding principal in FY 2006 will be an estimated $2.5 billion.

- The Commission estimates G.O. debt service to be paid in FY 2006 at approximately $1.656 billion, an increase of 3.8% over the previous year. Debt service on State-issued revenue bonds is expected to increase 9.2% to $256.3 million in FY 2006.

- Bond premiums are additional funds received from a bond sale when the market price of the bonds is higher than the issue price. At this time it has not been decided how to use the bond premiums in the equation of authorization. There is some argument as to whether the bond premiums should be added or subtracted from authorization levels. For any new capital programs to be initiated, the legislature would have to increase General Obligation authorization in almost every category (except Coal Development).

- The McCormick Place Expansion Bonds are paid for from Chicago-related taxes, but there is a back up pledge of State sales tax if needed. The MPEA foresees a need to use a portion of this pledge for debt service in FY 2006, approximately $4 million, and probably in future years until revenues pick up.

- The State pays debt service on RTA SCIP bonds. There is a delay of six months from when the annual payment amount request is submitted and the RTA is given the funds. In the meantime, the RTA must dip into its reserves to pay the amount and basically wait for the "reimbursement" from the State.

- Expected Tollway revenues are $12.5 million (2.5%) lower than projected for January through June of 2005. This amount will be offset by a minor decrease in operating expenditures and a $20 million decrease in debt service since the Tollway only sold $770 million in bonds, instead of the initial $1 billion proposed.

ILLINOIS BONDS AT A GLANCE ($ in Millions)							
			From Previous Year		Estimated	From Previous Year	
	FY 2004	FY 2005	$ Chg.	% Chg.	2006ⓘ	$ Chg.	% Chg.
Bond Sales*							
General Obligation**	$1,175.0	$875.0	-$300.0	-25.5%	$1,015.0	$140.0	16.0%
Revenue	350.0	200.0	-150.0	-42.9%	150.0	-50.0	-25.0%
Locally-issued †	42.5	260.0	217.5	511.8%	260.0	0.0	0.0%
TOTAL	**$1,567.5**	**$1,335.0**	**-$232.5**	**-14.8%**	**$1,425.0**	**$90.0**	**6.7%**
Outstanding Principal							
General Obligation	$19,556.3	$19,893.0	$336.7	1.7%	$20,342.0	$449.0	2.3%
Revenue	2,253.3	2,347.7	94.4	4.2%	2,477.5	129.8	5.5%
Locally-issued	4,210.2	4,385.1	174.9	4.2%	4,447.4	62.3	1.4%
TOTAL	**$26,019.8**	**$26,625.8**	**$606.0**	**2.3%**	**$27,266.9**	**641.1**	**2.4%**
Debt Service							
General Obligation	$1,412.3	$1,594.9	$182.6	12.9%	$1,655.5	60.6	3.8%
Revenue	218.5	234.6	16.1	7.4%	256.3	21.7	9.2%
Locally-issued	237.8	256.2	18.4	7.7%	273.7	17.5	6.8%
TOTAL	**$1,868.6**	**$2,085.7**	**$217.1**	**11.6%**	**$2,185.5**	**99.8**	**4.8%**
General Revenuesⓘ	**$27,049.0**	**$28,183.0**			**$27,016.0**		
G.O. & Revenue Debt Service as % of General Revenues	**6.06%**	**6.40%**			**7.08%**		
G.O. Bond Rating							
Moody's	Aa3	Aa3			Aa3		
Standard & Poor's	AA	AA			AA		
Fitch Ratings	AA	AA			AA		

* Bond Sales do not include refunding sales or Short-term borrowing.
† FY 2004 was an IL Sports Facilities Authority bond sale. FY 2005 and FY 2006 include RTA SCIPs.

ⓘ The FY 2006 General Revenue Estimate uses CGFA's August 2005 estimate. Principal outstanding and debt service were estimated by CGFA using information from OMB and the Comptroller.
Sources: Governor's Office of Management and Budget, Office of the Comptroller, MPEA, RTA, and ISFA.

The current General Obligation bond authorization for new projects is $16.927 billion, with approximately $2.943 billion unissued since September 30, 2005. Total Build Illinois bond authorization equals $3.806 billion with $686.8 million remaining unissued as of September 30, 2005. Authorization has not been increased since January 2004.

SUMMARY OF STATE-SUPPORTED BOND DEBT

State-supported bond debt can be divided into three categories: general obligation debt backed by the full faith and credit of the State, State-issued revenue debt supported by dedicated tax revenue or lease payments, and locally-issued revenue debt supported by the pledge of State taxes or lease payments. Bonds are sold to provide funds either for projects or to refund previously issued bonds.

The State issues general obligation bonds for its continuing capital program that began in FY 1971. Bonds secured by dedicated tax revenues are issued by the State for the Build Illinois program and for Civic Centers. Certificates of participation (COPs) have been authorized and issued by the State to finance the lease/purchase of equipment and the lease/purchase of correctional facilities. Locally-issued revenue bonds supported by State revenue include those issued by the Metropolitan Pier and Exposition Authority (McCormick Place and Navy Pier), the City of Collinsville (State Office Building), the Springfield Airport Authority, the Illinois Sports Facilities Authority (Comiskey Park and Soldier Field), and the Regional Transportation Authority. [The Springfield Airport Authority bonds were paid off in FY 2003, while the City of Collinsville bonds will be paid off in FY 2006.]

The following report looks at various debt-related statistics in an attempt to explain what has occurred in this area and what the potential direction of the State's bonding programs may be in the future. The estimates contained within for FY 2006 are projections by the Commission on Government Forecasting and Accountability based on the Governor's Office of Management and Budget's estimate of FY 2006 bond sales.

CURRENT BOND TOPICS

Debt Responsibility and Transparency

P.A. 93-0839 (SB 2206) set limits on debt and creates greater transparency through disclosure of bond deals from the Governor's Office of Management and Budget. Limitations are put on the following aspects of issuance:

Bond limit - No bonds may be issued if, in the next fiscal year after the issuance the amount of debt service on all then outstanding bonds would exceed 7% of the aggregate appropriations (excluding transfers out) from the general funds and the Road Fund for the fiscal year immediately prior to the fiscal year of issuance, unless consented in writing by the Comptroller and Treasurer. **Using CGFA's FY 2006 G.O. debt service estimate of $1.656 billion divided by FY 2004's appropriated expenditures of $26.717 billion, the State is at approximately 6.2% of its 7.0% bond limit.**

Cost of issuance limitations - Up to 0.5% cost of issuance shall include underwriter's fees and discounts, but not bond insurance, and is authorized provided that no salaries of State employees or other State office operating expenses shall be paid out of non-appropriated proceeds. The Office of Management and Budget shall post summaries of all cost of issuance per bond sale on its website and submit the list to the legislative leaders and the Commission on Government Forecasting and Accountability (CGFA), including costs paid to businesses owned by minorities, females or persons with disabilities, within 20 business days of the sale or issuance. Copies of all contracts for costs of issuance shall be submitted to the CGFA within 20 business days of issuance. The Office of Management and Budget shall not contract with anyone who pays a contingent fee to a third party for promoting their selection and must wait 2 calendar years before contracting with a party who made a false certification of contingent fees.

Capitalized Interest –Removes the provision that allowed for capitalized interest.

Payment and Maturity - Bonds must be offered for sale with equal principal or mandatory redemption amounts, the first maturity occurring within the fiscal year in which the bonds are offered or within the next succeeding fiscal year, and maturing or subject to mandatory redemption each fiscal year thereafter up to 25 years in maturity (maturity was 30 years).

Negotiated Sales - No more than 75% of bond sales, based on total principal amount, may be sold by negotiated sale within each fiscal year.

Refunding bonds - All bonds in an issue that include refunding bonds must mature no later than the final maturity date of the bonds being refunded. No refunding bonds shall be sold unless the net present value of debt service savings is 3% or more of the principal amount of the refunding bonds to be issued. The refunding principal maturing and redemption amounts due shall be greater than or equal to the principal maturing and redemption amounts of the bonds they are refunding.

<u>"Truth in borrowing disclosures"</u> are now required upon bond issuance, including principal and interest payments to be paid on the bonds over the full stated term and total principal and interest to be made each fiscal year on all other outstanding bonds issued over the full stated terms of those bonds. For refunding bonds, the disclosure shall state the estimated present-value savings to be obtained through the refund in total and by each fiscal year that the refunding bonds may be outstanding. These disclosures shall be provided within 20 days of issuance and posted for no less than 30 days on the website for the Governor's Office of Management and Budget and provided in written form to the Commission on Government Forecasting and Accountability. Amounts included in these disclosures when relating to variable rate bonds shall be computed at an interest rate equal to the rate at which the variable rate bonds are first set upon issuance plus 2.5% after taking into account any credits permitted, and amounts as payment of interest on variable rate bonds shall include the amounts certified by the Director of OMB. Since the beginning of FY 2005, the Office of Management and Budget has provided the Commission on Government Forecasting and Accountability the above disclosures and has posted these on the Office of Management and Budget's website.

<u>Certificates of Participation</u> - The State shall not enter into any third-party vendor or other arrangement relating to the issuance of certificates of participation (COPs) or other forms of financing relating to the rental or purchase of office or other space, buildings, or land unless otherwise authorized by law.

The following table shows that the Office of Management and Budget has followed the debt responsibility measures for FY 2005 bond issues. **In FY 2005, 32.6% of G.O. bonds and 37.5% of Build Illinois bonds were sold competitively, which are both in excess of the minimum requirement of 25%.**

Debt Responsibility Measures						
FY 2005	**Cost of Issuance Limit 0.50%**	**Capitalized Interest**	**Maximum 25 yr. Maturity**	**Negotiated or Competitive Sale**	**Level principal**	**Annual maturity or mandatory redemption**
G.O. September 2004-$285 million	0.28%	no	√	Competitive	√	√
G.O. November 2004-$275 million	0.35%	no	√	Negotiated	√	√
Build IL February 2005-$75 million	0.37%	no	√	Competitive	√	√
G.O. April 2005-$315 million	0.36%	no	√	Negotiated	√	√
Build IL June 2005 -$125 million	0.42%	no	√	Negotiated	√	√
FY 2006						
G.O. September 2005 -$300 million	0.33%	no	√	Competitive	√	√

Pension Obligation Bond Payment Changes

Public Act 93-0002 (HB 2660) amended the General Obligation Bond Act to increase bond authorization by $10 billion for pension obligation bonds. The taxable 30-year Pension Obligation bonds were sold in June 2003, at a true interest rate cost to the State of 5.047%. Debt service to be paid on these bonds will range from $481.0 million beginning FY 2004 up to $1.16 billion in the final years of payoff. The State will not have to begin making principal payments on the bonds until FY 2008, with payments beginning at $50.0 million and ending at $1.1 billion in FY 2033, while interest payments decrease from early highs of $481.0-$496.2 million down to $56.1 million by FY 2033 (See Table 6 on page 22).

A portion of the bond proceeds was used to pay part of the FY 2003 State contribution and all of the FY 2004 State contributions to the retirement systems. Of the $10 billion in proceeds, $7.3 billion was used to reduce the unfunded liabilities of the State-funded retirement systems. Public Act 93-0002 added a provision to the funding plan to reflect this additional employer contribution and to require the retirement systems to pay the bond debt service by setting the maximum annual employer contribution to each system at the amount that would have been contributed without the bond issuance, minus the total debt service payments for the fiscal year. Effectively, this reduction in retirement contributions was to be used to pay the debt service on the bonds.

Public Act 93-0839 provides that SERS will collect a portion of the FY 2004 and FY 2005 SERS debt service on the bonds from State agency budgets, as is currently done with the SERS employer retirement contributions, rather than being paid directly from GRF to the General Obligation Bond Retirement and Interest Fund (GOBRI). The debt service collected by SERS would then be transferred from SERS to GOBRI. The FY 2004 and FY 2005 debt service that is the responsibility of SERS totals $185.1 million. Of this amount, $136.2 million (73.6% of SERS debt service) is attributable to debt service on the portion of the bond proceeds used to reduce the SERS unfunded liability.

Effectively, Public Act 93-0839 requires SERS to certify a rate of payroll, based on the FY 2005 State payroll projection, which will allow SERS to collect $136.2 million in debt service through agency payrolls. Allowing SERS to collect debt service through agency payrolls requires non-GRF funds (including federal funds) to pay part of the debt service. It should be noted that some of the proceeds of the pension funding bonds reduced the unfunded liability of SERS, including some liability that is associated with employees at agencies that are funded by non-GRF and federal funds. Therefore, the Act provides a mechanism for non-GRF and federal funds to pay a share of the debt service on bond proceeds that were used to reduce the SERS unfunded liabilities (**See Appendix for a list of funds and their contribution to POB debt service**).

According to SERS, in FY 2005 about 37% of State payrolls are from non-GRF funds and federal funds. The additional amount that agencies must contribute to debt service due to the additional certification saved the State $50.3 million in GRF in FY 2005.

Short-Term Borrowing

In November 2005, the Administration plans to borrow approximately $1 billion to pay a backlog of Medicaid provider bills. As required by law, the plan has gained the approval of Comptroller Hynes and Treasurer Topinka. Debt service payments are to be made every month from March until June of FY 2006. The Administration hopes for an interest rate around 3.25%, which would cost an estimated $15 million in interest.

HISTORY OF SHORT TERM BORROWING		
Date Issued	**Amount (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
May 2003	$1,500	May 2004*
June 2004	$850	October 2004*
March 2005	$765	June 2005
November 2005	$1,000	June 2006
Source: Office of Management & Budget *Across fiscal year borrowing		

The last Short-term borrowing occurred in March 2005, when $765 million in short-term borrowing proceeds were deposited into the General Fund and then subsequently transferred to the Hospital Provider Fund to be spent on Medicaid bills. The short-term borrowing was paid off in June of 2005 including $5.7 million in interest.

Both of these types of borrowing are for cash flow purposes. In these cases, the State can borrow up to 5% of the State's appropriations for the fiscal year, but it must be repaid by the end of that fiscal year. The State can also use short-term borrowing for a deficit due to emergencies or failures of revenues**.** This "across fiscal year" borrowing allows for borrowing up to 15% of the State's appropriations for the fiscal year and must be repaid within one year.

Illinois State Toll Highway Authority

The Illinois State Toll Highway Authority's new 10-year plan includes the first increase in tolls since 1983. Under the new plan, ninety percent of the Tollway will be reconstructed and resurfaced using continually reinforced concrete, and will also be widened to add capacity. Another priority is to convert the entire mainline system to open road tolling using I-PASS only lanes. The long-awaited I-355 extension will be constructed (State and federal permits and approvals will lapse if construction doesn't begin by 2007). The Tollway will also construct a 6-lane facility as its local share of the O'Hare bypass project, creating western access to O'Hare. This expansive 10-year plan is expected to cost $5.3 billion, using $2.9 billion in bond revenues and $2.4 billion pay-as-you-go funding from revenues. There is no dollar amount limit on the Authority's bonding, with a 25-year maximum maturity allowed [605 ILCS 10/17]. Tollway bonds are not backed by the State, but the Governor must approve bond sales.

As of June 30, 2005, the Tollway's outstanding debt was $1.427 billion, after selling $770 million of bonds in June. S&P affirmed its AA- rating of the Authority's debt due to the conservative estimates of revenues which account for diversions in traffic, and their ability to increase tolls as needed. Moody's raised its rating to Aa3 from A1, citing the clear financing plans for the capital project. Fitch, who rates the Tollway's debt AA-, changed their outlook from negative to stable since the Tollway has lowered its revenue projections and debt service projections for 2005 while still being able to cover expenditures and maintain a reasonable 2.0x (times) coverage of debt service.

Current Toll Highway Bond Debt Service (in millions)

Year Ending January 1	Debt Service on Outstanding Bonds	Debt Service on $770 million	Total Debt Service
2006	$79.6	$19.7	$99.4
2007	$79.7	$37.6	$117.3
2008	$79.9	$37.6	$117.5
2009	$80.0	$37.6	$117.6
2010	$70.0	$37.6	$107.6
2011	$72.2	$37.6	$109.8
2012	$72.2	$37.6	$109.8
2013	$72.2	$37.6	$109.8
2014	$72.2	$71.0	$143.2
2015	$72.2	$71.0	$143.2
2016	$72.1	$71.0	$143.1
2017	$72.2	$71.0	$143.2
2018		$122.9	$122.9
2019		$122.9	$122.9
2020		$122.9	$122.9
2021		$122.9	$122.9
2022		$122.9	$122.9
2023		$122.9	$122.9
TOTAL	**$894.5**	**$1,304.30**	**$2,198.9**

Debt service for FY 2006, including interest for the new bonds, will be approximately $99.4 million. Final principal payment on the old bonds is due on January 1, 2017, while the debt on the new bonds will be paid off January 1, 2023.

The Tollway expects that with the new toll rates, effective January 1, 2005, revenues for 2005 will reach approximately $650 million. Revenues from January through June 2005 have brought in almost $307.0 million, $297.2 million of which was from toll revenues, approximately $12.4 million, or 2.5%, less than expected to this point. This is attributed to the quicker than expected transfer of cars to the electronic I-Pass system, which had no increase in tolls. Cars paying cash did see an increase in tolls, so many switched to the I-Pass system, therefore lowering expected toll revenues because fewer cars are paying the increased toll amount. The Traffic Engineers for the Tollway, Wilbur Smith and Associates, have made adjustments to their toll revenue analysis to reflect this change. However, this loss in expected revenue is offset by the fact that fewer trucks diverted their routes from the Tollway than was expected, increasing expected revenue in that line.

Actual Maintenance and Operations expenditures from January through June of 2005 were $96.6 million, down $2.6 million, or 2.7%, from expected expenditures. Total Maintenance expenditures for the year are budgeted at approximately $211.0 million. The Capital program's expenditures are budgeted to be $890.0 million, which will be paid mostly from the $770 million June 2005A Series bond sale. Debt Service was budgeted at $120.0 million for payments based on an expected $1 billion bond sale, but will be reduced to $100 million since the bond sale was lower. This savings in debt service will allow some room for the lower revenues experienced in these beginning months, while toll revenues should pick up during the summer months for travel.

Metropolitan Pier and Exposition Authority (MPEA)

There are two categories of bonds sold by the MPEA. The McCormick Place Dedicated State Tax Revenue bonds get transfers from the Build IL Fund for annual debt service (portions of State's sales tax, hotel tax and vehicle use tax). The McCormick Place Expansion Bonds are paid for from Chicago-related taxes: the airport departure tax, automobile renting tax, hotel tax, and local restaurant sales tax. In the event that the funds for Expansion Bonds are not sufficient, a backup pledge of sales tax revenue from the Build Illinois Fund may be used, up to a certain amount as stated in the sales tax acts (see table).

McCormick Place Expansion Bonds Back-up Maximum (in millions)	
FY 2003	$99.0
FY 2004	$103.0
FY 2005	$108.0
FY 2006	$113.0
FY 2007	$119.0
FY 2008	$126.0
FY 2009	$132.0
FY 2010	$139.0
FY 2011	$146.0
FY 2012	$153.0
FY 2013	$161.0
FY 2014	$170.0
FY 2015	$179.0
FY 2016	$189.0
FY 2017	$199.0
FY 2018	$210.0
FY 2019	$221.0
FY 2020	$233.0
FY 2021	$246.0
FY 2022	$260.0
FY 2023-2042	$275.0

The funds available from the backup pledge of sales tax on the Expansion Project bonds have only been used in a borrowing situation and have been paid back, $18 million in FY 2004 and $28 million in FY 2005. But the MPEA foresees a need to use a portion of this pledge for debt service in FY 2006—they would borrow approximately $38 million in FY 2006 and pay back $34 million. Constraints on revenues again in FY 2005 cut down on surpluses and affected funds available to pay debt service. The Authority Tax fund balance has been drawn down from $29.6 million at June 30, 2001, to approximately $5.7 million at June 30, 2005. The Authority tapped $30 million from their rolling reserve fund to help pay the almost $127 million in debt service (for both Dedicated and Expansion bonds) in FY 2005, leaving only a $3 million balance in that fund.

Total Debt service for Dedicated and Expansion bonds for the next four years is as follows:

FY 2006	$133.6 million
FY 2007	$139.5 million
FY 2008	$157.6 million
FY 2009	$163.5 million

Expansion bond debt service increases each your through FY 2023, and the fear is that tax collections will not recover at the needed pace for the annual increases in debt service, and the State backup pledge will have to be tapped. Debt service will level off in FY 2023, and at some point in the future tax collections should come back and the Authority could try to pay back amounts borrowed from the State (normally surplus revenues would be used for capital maintenance). The MPEA is working with the Office of Management and Budget and the legislature to possibly restructure future MPEA debt to resolve this problem.

Total Authority assets decreased by $119 million from FY 2003 to FY 2004, with the total net deficit increasing by $124 million. Although some operating expenses were cut by reworking a Navy Pier catering contract and laying off 70 of the 737 McCormick Place and Navy Pier employees, revenues were down $86 million in FY 2004 due to a decline in attendance, loss of shows and investment losses. Calendar year 2005 was a slow year for shows, but the 2006 schedule looks to increase space booked to a level higher than 2001, but not quite up to the level in 2000.

Regional Transportation Authority (RTA)

Some issues over the past year have been brought to the legislature concerning authorization, debt service and operational funding formulas of the Regional Transportation Authority and its boards: the Chicago Transit Authority, Metra (rail line) and Pace (suburban bus line). The RTA has State-supported bonds called Strategic Capital Improvement Project (SCIP) bonds. The RTA was given authorization of $260 million a year from FY 2000 to FY 2004 for the SCIP II bond program, as a part of the Illinois First program, equaling a total of $1.3 billion. If the full $260 million is not issued within the calendar year it is authorized, the remaining amount remains available for future issuance.

The RTA has sold the following SCIP II bonds:

FY 2000	$ 260 million
FY 2001	$ 100 million
FY 2002	$ 160 million
FY 2003	$ 260 million
FY 2004	$ 0 million
FY 2005	$ 260 million (sold September 2004)
TOTAL	$1,040 million

The RTA has received bond premiums from the SCIP II bond sales in the amount of $117 million. The Governor's office and the RTA are in negotiations on whether to count the additional proceeds from the premiums against the Authority's bond authorization. This will lower the level of bonds available for sale from $260 million to $143 million.

The $117 million from premiums could be used for capital programs, transaction costs or debt service, but the RTA plans on using it for capital programs. The entire $1.157 billion that the RTA has banked from the bond sales is net of transaction costs and no proceeds have been used for debt service. The Authority plans on selling the remaining authorized amount of SCIP bonds in FY 2006 after negotiations are concluded. The RTA still foresees a need for projects and maintenance and may request an increase in authorization for another round of SCIP bonds at some time in the future.

The State pays debt service on SCIP bonds. There are two issues with the timing of debt service payment on the bonds: It takes the State's Executive Branch five months from the beginning of the fiscal year to approve the grant for the annual payment. Additionally, once the SCIP requisition is submitted, it usually takes another month for the payment to be made. In the meantime, the RTA must dip into its reserves to pay the amount and basically wait for the "reimbursement" from the State. For FY 2006, if the payment is received by the first week of December, the RTA will have paid approximately $54 million of debt service from their reserves while waiting for the State grant. As the last authorized bonds are sold, and if authorization is increased, the payment that the RTA must make while waiting for the State grant will be harder to cover, unless revenues significantly improve.

With declines in revenue, the RTA and its member boards are having difficulty covering operational costs as well. The CTA is requesting that the funding proportions it receives from RTA revenues be changed so that they receive a larger proportion. CTA has requested help from the State in the amount of $54 million in FY 2005, which they received in the budget implementation bill, and another $50 million in FY 2006. There will be discussion and may be a rewriting of the funding formula in the RTA Act this spring.

School Construction Update

The School Construction Grant Program received no new appropriations in FY 2005, and will receive $18 million in FY 2006. Applications requesting grants continue to come in to the State Board of Education unsolicited.

Applications per Fiscal Year	1998	1999	2000	2001	2002	2003	2004	2005	2006
Applications Received	57	197	157	166	204	94	48	92	29
Applications Entitled*	53	161	131	148	97①	8†	7†	4†	2†

**"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)*
①There 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 through 2006 entitlements are suspended except for emergency situations. This amount denotes estimated emergency situations.

Public Act 92-0598, which was signed into law at the end of FY 2002, increased School Construction authorization by $930 million. FY 2003 and FY 2004 appropriations of $500 million each, allowed for the funding of 87% of the entitled FY 2002 projects. Of the 97 entitled applications in FY 2002, 24 projects remain on the list (Chicago gets 20% of total funding spent) and have not received funding. The School Construction Fund receives a portion of general obligation bond sale proceeds, which are sold as needed for the approved construction projects. Grant amounts to schools for construction projects and costs are paid out of this fund.

	Appropriation from School Construction Fund by Fiscal Year								
(Millions)	1998	1999*	2000*	2001	2002	2003	2004	2005	2006
Appropriation	$30.0	$260.0	$500.0	$500.0	$740.0	$500.0	$500.0	$0	$18

**Adjusted to amounts appropriated only for the $3.05 billion School Construction program.*

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 which began April 1, 2003), and $1/7^{th}$ of the 7% Telecommunications Excise tax from the School Reform Act. The telecom revenues fell to under $100 million in FY 2003 and still have not totally recovered. Whenever this amount falls under the 1999 level of $101 million, GRF backfills the shortage amount, which it did in FY 2004 by an additional GRF transfer of $11.8 million and in FY 2005 with an additional transfer of $2 million. As the annual liquor and cigarette tax revenues deposited into the School Infrastructure Fund are set amounts, the telecommunications tax revenues become the main factor in determining if revenues will cover School Construction debt service.

School Infrastructure Fund ($ in Millions)	1998	1999	2000	2001	2002	2003	2004	2005	2006†
Telecom Tax	$35.2	$101.5	$108.5	$114.9	$110.4	$89.7	$79.1	$79.9	$77.3
Liquor Tax/GRF	----	----	$30.0	$60.0	$0.0*	$0.0*	$71.8	$62.0	$60.0
Cigarette Tax	----	----	----	----	----	$15.0	$60.0	$60.0	$60.0
TOTAL	$35.2	$101.5	$138.5	$174.9	$110.4	$104.7	$210.9	$199.9	$198.6

Note: Commission on Government Forecasting and Accountability estimates.
**The liquor tax transfer was suspended for FY 2002 and FY 2003 as part of the budget agreement.*
† *The FY 2006 amount is a CGFA estimate.*

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.

Transfer from School Infrastructure Fund to G.O. Bond Retirement & Interest Fund ($ in Millions)	1998	1999	2000	2001	2002	2003	2004	2005	2006†
Transfer Amount	N/A	$7.0	$21.2	$49.4	$73.2	$129.5	$155.2	$196.7	$227.8

Sources: Office of Management and Budget and Office of the Comptroller.
† *The FY 2006 amount is a CGFA estimate.*

CGFA estimates $198.6 million in revenues and $227.8 million in debt service for FY 2006. Since performance of the telecommunications tax is not expected to improve, the State may have to dip into the General Revenue Fund to pay the shortage in debt service. Since School Construction bonds are general obligations of the State they would normally be paid from the General Revenue Fund, but over the years, whenever the School Construction Program has been expanded the State has added specific revenue streams to help pay for the increase in funding.

Governor Blagojevich's $550 million School Construction Program for FY 2006 did not pass. If any School Construction increases are approved, the twenty-four FY 2002 projects would receive money first since they have actually been entitled. Applications for FY 2003 and after will have to go through the entitlement process before funds are appropriated. The FY 2006 Capital Plan (p. 32) states that "recent data suggests that Illinois school districts have self-assessed their needs at over $6 billion with $3.8 billion of that simply needed to repair and upgrade existing facilities".

BOND SALES

The following table provides information on General Obligation and State-issued bond sales, which have occurred during the past two fiscal years.

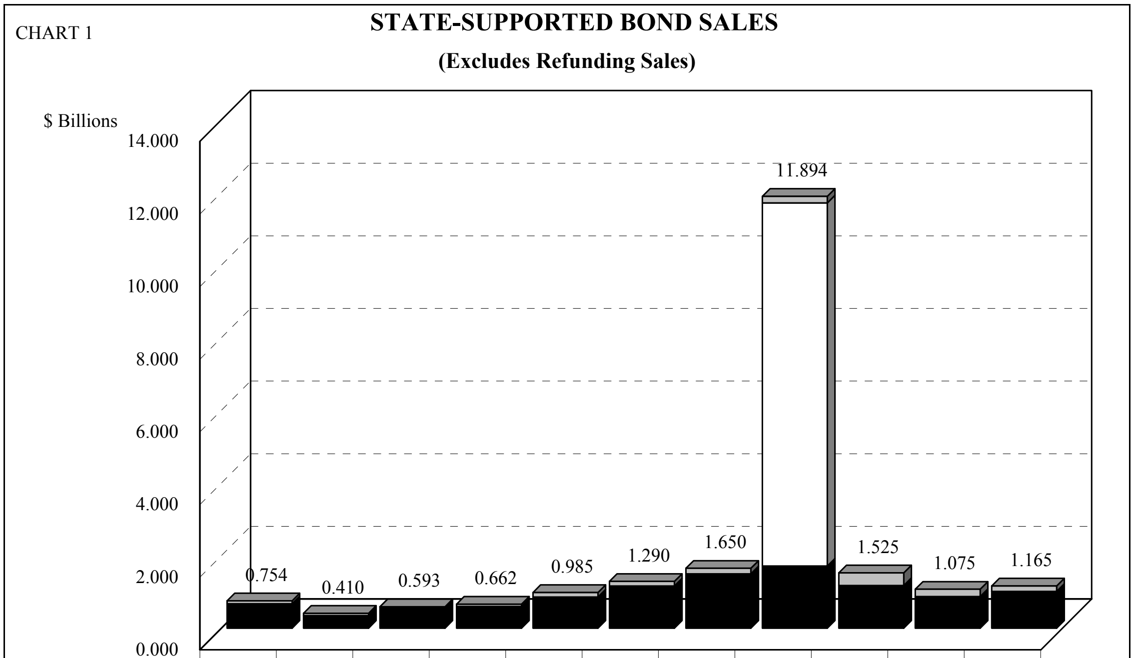
TABLE 1: BOND SALES ($ In Millions)				
FY 2004				
Type of Bond	Issuance	Amount	Competitive or Negotiated	Purpose
Build Illinois	July 2003	$150.0	Negotiated	Project Funding
General Obligation	October 2003 series A	$363.0	Negotiated	Project ($130.8) and Refunding
General Obligation	October 2003 series B variable rate	$600.0	Negotiated	Project ($559.8) and Refunding
Build Illinois	March 2004	$200.0	Negotiated	Project Funding
General Obligation	March 2004 series A	$484.4	Negotiated	Project Funding
General Obligation	March 2004 series B	$344.8	Negotiated	Refunding
General Obligation Certificates	June 2004	$850.0	Competitive	Short-Term Borrowing
	Total FY'04	**$2,992.2**		
FY 2005				
Type of Bond	Issuance	Amount	Competitive or Negotiated	Purpose
General Obligation	September 2004	$285.0	Competitive	Project Funding
General Obligation	November 2004	$275.0	Negotiated	Project Funding
Build Illinois	February 2005	$75.0	Competitive	Project Funding
General Obligation Certificates	March 2005	$765.0	Competitive	Short-Term Borrowing
General Obligation	April 2005	$315.0	Negotiated	Project Funding
Build Illinois	June 2005	$125.0	Negotiated	Project Funding
	Total FY'05	**$1,840.0**		

As Table 1 shows, total bond sales for FY 2004 equaled $2.992 billion. Of this total, $2.142 billion was for new projects. FY 2005 bond sales totaled $1.840 billion, of which $1.075 billion was for new projects, a decrease of 49.8% over the FY 2004 level. The following table illustrates the changes in bond sales by purpose from FY 2004 to FY 2005.

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

	FY 2004	FY 2005	$ Change	% Change
Projects	$1,525.0	$1,075.0	-$450.0	-29.5%
Refunding	617.2	0	-617.2	-100.0%
TOTAL	**$2,142.2**	**$1075.0**	**-$1,067.2**	**-49.8%**

Project bond sales for FY 2005 were almost 30% lower than FY 2004, while there were no refunding bond sales in FY 2005. Bonds sold to fund project expenditures are shown in Chart 1 and are further described according to the type of State support.



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
State Issued Rev	0.080	0.060	0.000	0.060	0.125	0.125	0.150	0.182	0.350	0.200	0.150
Pension Obligation								10.000			
General Obligation	0.674	0.350	0.593	0.602	0.860	1.165	1.500	1.712	1.175	0.875	1.015

■General Obligation □Pension Obligation ▩State Issued Rev

* GOMB Estimate
Source: Governor's Office of Management and Budget

Chart 1 shows the level of general obligation bond and State-issued revenue bond sales for new money projects since 1996. General Obligation bond sales were at there highest in years in FY 2003 at $1.712 billion, but have since decreased to around the $1.0 billion mark for fiscal years 2004 through estimated 2006 bond sales. Build Illinois new project bond sales reached a high point in FY 2004 of $350 million, but are now returning to levels at or below $200 million.

Estimated bond sales (per GOMB's FY 2006 Capital Plan) for FY 2006 are $1.165 billion, consisting of $1.015 billion in general obligation bonds and $150 million of Build Illinois bonds.

General Obligation Bonds

Table 3 breaks down general obligation sales for FY 2004 and FY 2005 by purpose. In FY 2005, new project G.O. bond sales decreased 25.5% to $875 million, while there were no refunding sales.

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

	FY2004	FY2005	$ Change	% Change
Projects	$1,175.0	$875.0	-$300.0	-25.5%
Refunding	617.2	0.0	-617.2	-100.0%
TOTAL	**$1,792.2**	**$875.0**	**-$917.2**	**-51.2%**

The Governor's Office of Management and Budget estimates $1.015 billion in bond sales for FY 2006, indicating an increase in the sale of general obligation project bonds of 16.0%. In September, the State competitively sold $300.0 million in new project bonds.

State-Issued Revenue Bonds

State-issued revenue bonds consist of bonds sold for the Build Illinois program and the Civic Center program.

Build Illinois. In FY 2005 new money bonds sales for Build Illinois were $200 million, while no refunding bonds were sold. The Governor's Office of Management and Budget estimates $150 million of new money bond sales for Build Illinois in FY 2006. Table 4 compares Build Illinois bond sales by purpose for FY 2004 and FY 2005.

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

	FY 2004	FY 2005	$ Change	% Change
Projects	$350.0	$200.0	-$150.0	-42.9%
Refunding	0.0	0.0	0.0	0.0%
TOTAL	**$350.0**	**$200.0**	**-$150.0**	**-42.9%**

Civic Centers. In FY 1992, the State sold $75 million in Civic Center bonds for various projects throughout the State. This sale amount was based on the estimated 3-year spending needs so that no additional sales would be required for several years. The State issued $37.6 million in Civic Center refunding bonds in FY 1998 and $50.3 million of refunding bonds in FY 2001. There are no plans to issue new project money for the Civic Center program, and no new project money has been issued since FY 1992 when Governor Edgar placed a moratorium on the program.

Locally-Issued Revenue Bonds

Metropolitan Pier and Exposition Authority. In 2001 the State increased the MPEA's bonding authorization by $800 million. Expansion bonds were sold July 2, 2002 in the amount of $802 million. Other issuances in FY 2003 and FY 2004 were refundings of $285.7 million and $42.5 million respectively. There were no issuances in FY 2005 and are expected to be no issuances in FY 2006.

Regional Transportation Authority. The RTA sold $260 million in Strategic Capital Improvement Project (SCIP) bonds in FY 2005. The RTA plans on selling its remaining authorization of SCIP bonds in FY 2006. At this time the actual amount is uncertain due to ongoing negotiations with the Governor's Office of Management and Budget. Although the statute amount of authorization remaining is $260 million, GOMB wants the Authority to lower the amount it will sell by the $117 million in premiums the Authority has received from past bond sales.

Illinois Sports Facilities Authority. The November 2000 General Assembly passed an increase in authorization of $399 million for the Illinois Sports Facilities Authority. In October of 2001 the ISFA sold the $399 million in new bonds for the renovation of Soldier Field and related lakefront property. The Authority issued new money bonds in FY 2004 in the amount of $42.5 million. There are no bond issuances for FY 2005 or FY 2006.

OUTSTANDING DEBT

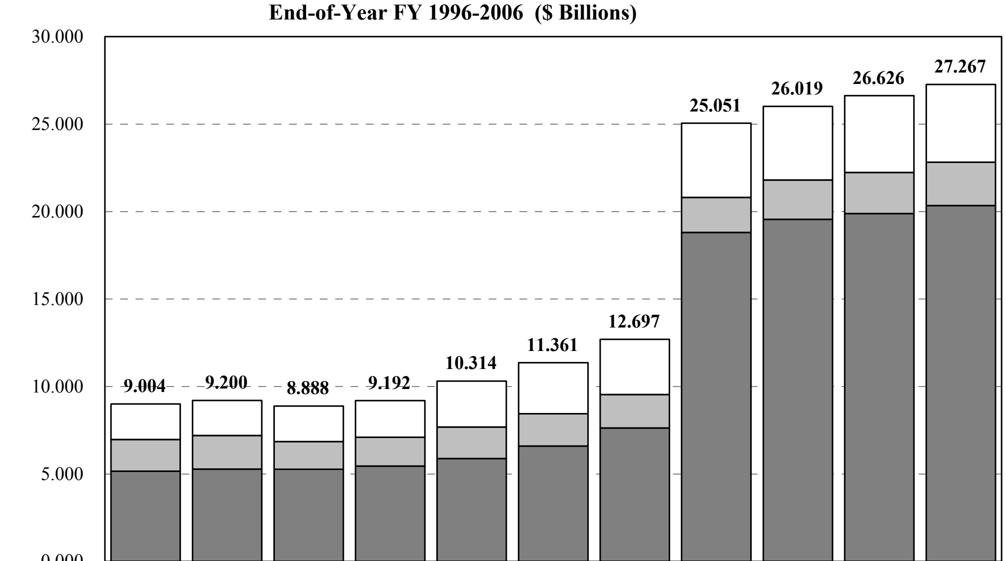
Short-term borrowing and unfunded pension liabilities are considered a part of a state's financial picture by rating agencies, but are not calculated in the State's outstanding debt. In FY 2003, to help fund the State's Pension Systems' unfunded liability, Illinois issued $10 billion in Pension Obligation Bonds, which shifted approximately $7.3 billion dollars of unfunded liability to $10 billion of long-term debt.

In FY 2005 principal increased $606 million, or 2.3%, while increases for FY 2006 are estimated to be approximately $641 million, or 2.4%, bringing the total outstanding State-supported principal to $27.267 billion.

CHART 2

STATE-SUPPORTED PRINCIPAL OUTSTANDING

End-of-Year FY 1996-2006 ($ Billions)



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
Locally-Issued Revenue	2.026	1.999	2.031	2.087	2.630	2.917	3.154	4.239	4.210	4.385	4.447
State-Issued Revenue	1.818	1.924	1.589	1.649	1.798	1.844	1.913	1.999	2.253	2.348	2.478
General Obligation	5.160	5.277	5.268	5.456	5.886	6.600	7.630	18.813	19.556	19.893	20.342

General Obligation   State-Issued Revenue   Locally-Issued Revenue

* CGFA Estimate
Sources: Governor's Office of Management and Budget, MPEA, ISFA, and RTA

General Obligation Bonds

G.O. principal at the end of FY 2005 equaled $19.9 billion, an increase of 1.7% over the previous fiscal year. FY 2006 principal outstanding is expected to increase 2.3% to $20.3 billion.

State-Issued Revenue Bonds

Since 1998 outstanding principal for State-issued revenue bonds has increased by an average of $94 million a year up to the estimated FY 2005 level. All increases since that time have been strictly from the Build Illinois bond program. FY 2005 increased to $2.3 billion over the previous year, approximately 4.2%. Outstanding principal in FY 2006 will be an estimated $2.5 billion.

Locally Issued Revenue Bonds

Principal outstanding for locally-issued revenue bonds saw growth in FY 2000 due to a McCormick Place expansion bond sale of $443.7 million, and a $260 million, the first of a series of Regional Transportation Authority "Strategic Capital Improvement Project" bond sales authorized through Illinois First. In FY 2001, principal outstanding increased due to another McCormick Place expansion bond sale of $267.7 million and an RTA SCIP sale of $100 million. FY 2002 saw the sale of $399 million of Soldier Field renovation bonds through the Illinois Sports Facilities Authority and another $160 million of RTA SCIPs.

The large increase in FY 2003 comes from an $802 million MPEA expansion project bond sale and an RTA SCIP sale of $260 million. In FY 2004 the ISFA sold $42.5 million in new project bonds. FY 2005 and FY 2006 principal increases are attributed to RTA SCIP bond sales, $260 million in FY 2005 and somewhere between $143 million and $260 million for FY 2006.

DEBT SERVICE

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

General Obligation

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 2005, the Road Fund supported $237.5 million (21.6%) of G.O. debt service, the School Infrastructure Fund $196.7 million (17.9%) and the General Revenue Fund $664.5 million (60.5%). In FY 2006, the Road Fund will support an estimated $259.0 million (22.3%) of G.O. debt service, the School Infrastructure Fund $227.8 million (19.7%), and the General Revenue Fund $672.6 million (58.0%).

TABLE 5: GENERAL OBLIGATION DEBT SERVICE BY FUND

($ Millions)	FY 2003 Amount	FY 2004 Amount	FY 2005 Amount	FY 2005 % 0f Total	Estimated FY 2006 Amount	FY 2006 % of Total
Road Fund	$215.0	$192.7	$237.5	21.6%	259.0	22.3%
School Infrastructure Fund	129.5	155.2	196.7	17.9%	227.8	19.7%
General Revenue Fund	628.9	583.4	664.5	60.5%	672.6	58.0%
SUBTOTAL	**$973.4**	**$931.3**	**$1098.7**	**100.0%**	**$1,159.4**	**100.0%**
General Revenue Fund for POBs	0.0		445.9	89.9%	470.6	94.8%
Capitalized Interest from POB proceeds		481.0				
Other Funds for POBs* (*per SERS' certification)			50.3	10.1%	25.6	5.2%
SUBTOTAL	**$0.0**	**$481.0**	**$496.2**	**100.0%**	**$496.2**	**100.0%**
TOTAL	**$973.4**	**$1,412.3**	**$1,594.9**		**1,655.6**	

(*Estimates for FY 2006 were made by CGFA using information from the Office of Management and Budget and the Office of the Comptroller)

Interest on Pension Obligation bonds was $496.2 million in FY 2005 and will be $496.2 million in FY 2006. Public Act 93-0839 required SERS to collect and pay a total of $136.2 million in FY 2005 for POB debt service. Of this amount approximately $69.2 million will be paid from employer contributions to SERS for FY 2005 debt service. The remaining $67 million in FY 2005 is to "repay" the General Revenue Fund for FY 2004 interest on POBs, even though this interest was capitalized (paid from the bond proceeds).

SERS receives State pension contributions from various funds, including the GRF. The change in P.A. 93-0839 occurred so that GRF would not have to pay all of the interest on bonds which funded systems that are also supported by other State funds. According to SERS, in FY 2005 about 37% of State payrolls are from non-GRF funds and federal funds. The additional amount that agencies must contribute to debt service due to the additional certification saved the State $50.3 million in GRF in FY 2005 [See Appendix].

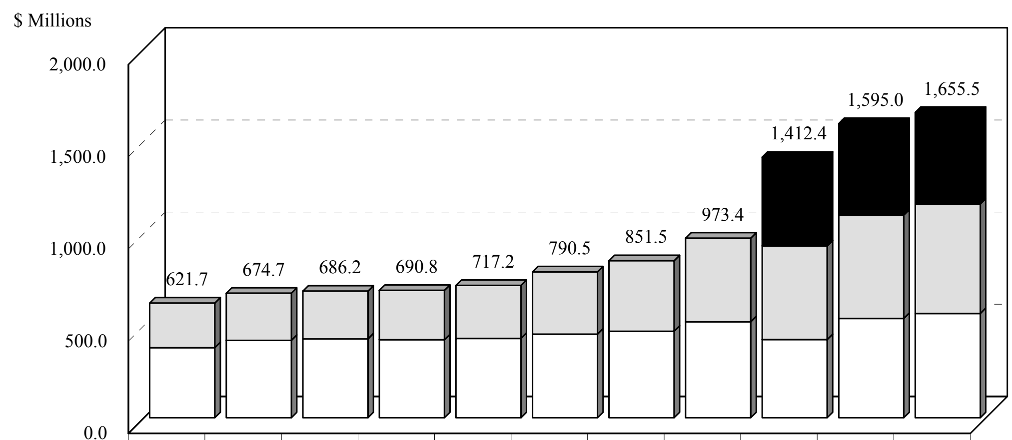
FY 2006 payments from SERS for POB debt service will be approximately $69.2 million. Using the 37% amount of state payrolls from non-GRF funds to SERS would suggest an estimated $25.6 million in POB debt service from other State funds.

The Governor's Office of Management and Budget estimates general obligation debt service of $1.643 billion in FY 2006, but these numbers do not include expected FY 2006 bond sales. The Commission has added an additional estimated amount to the debt service to be paid in FY 2006, increasing that debt service to approximately $1.656 billion. Chart 3 shows general obligation debt service payments broken out by principal and interest.

CHART 3

GENERAL OBLIGATION DEBT SERVICE

Principal and Interest



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
POB Interest									481.0	496.2	496.2
POB Principal									0.0	0.0	0.0
Interest	241.7	255.6	258.9	267.8	286.7	336.6	382.6	453.2	507.7	560.5	593.9
Principal	380.0	419.1	427.3	423.0	430.5	453.9	468.9	520.2	423.7	538.3	565.4

Principal / Interest / POB Principal / POB Interest

* The FY 2006 debt service is a CGFA estimate.

The State does not begin making principal payments on POB bonds until FY 2008, with payments beginning at $50 million and ending at $1.1 billion in FY 2033, while interest payments decrease from early highs of up to $496.2 million down to $56.1 million by FY 2033. The actual debt service schedule is listed on the following page in Table 6.

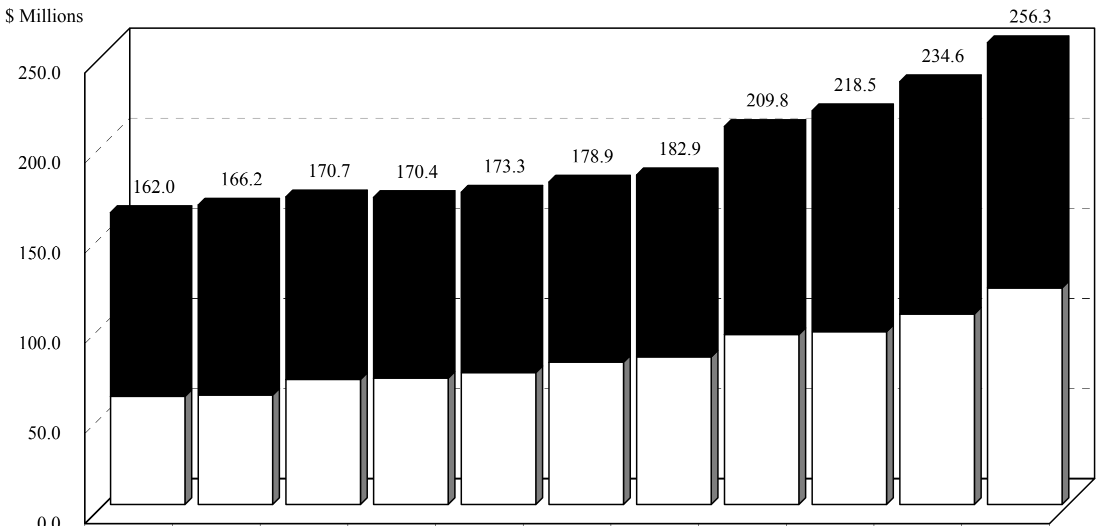
TABLE 6: PENSION OBLIGATION BONDS DEBT SERVICE SCHEDULE			
FY ending June 30	**Principal**	**Interest**	**Total FY Debt Service**
2004	$0	$481,038,333	$481,038,333
2005	0	496,200,000	496,200,000
2006	0	496,200,000	496,200,000
2007	0	496,200,000	496,200,000
2008	50,000,000	496,200,000	546,200,000
2009	50,000,000	494,950,000	544,950,000
2010	50,000,000	493,550,000	543,550,000
2011	50,000,000	491,900,000	541,900,000
2012	100,000,000	490,125,000	590,125,000
2013	100,000,000	486,375,000	586,375,000
2014	100,000,000	482,525,000	582,525,000
2015	100,000,000	478,575,000	578,575,000
2016	100,000,000	474,525,000	574,525,000
2017	125,000,000	470,175,000	595,175,000
2018	150,000,000	464,737,500	614,737,500
2019	175,000,000	458,212,500	633,212,500
2020	225,000,000	449,550,000	674,550,000
2021	275,000,000	438,412,500	713,412,500
2022	325,000,000	424,800,000	749,800,000
2023	375,000,000	408,712,500	783,712,500
2024	450,000,000	390,150,000	840,150,000
2025	525,000,000	367,200,000	892,200,000
2026	575,000,000	340,425,000	915,425,000
2027	625,000,000	311,100,000	936,100,000
2028	700,000,000	279,225,000	979,225,000
2029	775,000,000	243,525,000	1,018,525,000
2030	875,000,000	204,000,000	1,079,000,000
2031	975,000,000	159,375,000	1,134,375,000
2032	1,050,000,000	109,650,000	1,159,650,000
2033	1,100,000,000	56,100,000	1,156,100,000
TOTAL	**$10,000,000,000**	**$11,933,713,333**	**$21,933,713,333**

State-Issued Revenue Bonds

State-issued revenue bonds currently outstanding include Build Illinois and Civic Center bonds. Total debt service costs for the remaining bonds outstanding in this category are shown in Chart 4, which indicates that $234.6 million was paid in principal and interest in FY 2005, which is expected to increase 9.2% to $256.3 million in FY 2006.

CHART 4

STATE-ISSUED REVENUE DEBT SERVICE
Principal and Interest



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
Interest	102.0	105.5	101.3	100.3	100.1	100.0	101.0	115.5	122.6	128.9	136.1
Principal	60.0	60.7	69.4	70.1	73.2	79.0	81.9	94.3	95.9	105.7	120.2

□Principal ■Interest

* The FY 2006 amount is a CGFA estimate.

Build Illinois. These bonds comprise the majority of debt service costs for the State-issued revenue bonds. Total debt service amounts for the Build Illinois program totaled $220.7 million in FY 2005, consisting of $99.2 million in principal and $121.5 million in interest. The Commission estimates the FY 2006 level of principal and interest payment to be $242.5 million, an increase of 9.9%.

Civic Centers. The State refunded $48.6 million of Series 1990A and $0.7 million of Series 1990B Civic Center bonds in FY 2001 to lower debt service costs through the year 2016. Because these bonds were issued using a level debt service repayment structure, annual debt service costs will remain at approximately $13.9 million annually through FY 2016, and then increase to $14.4 million through FY 2020.

Locally-Issued Revenue Bonds

TABLE 7: Locally-Issued Revenue Bond Debt Service History						
	FY 2001	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006***
MPEA dedicated	$31,592,075	$31,630,138	$31,591,317	$31,604,374	$31,589,211	$31,576,241
MPEA expansion	$79,996,185	$83,994,862	$88,985,938	$92,987,983	$95,242,941	$101,991,113
ISFA	$12,351,050	$18,692,481	$21,744,200	$23,438,478	$24,154,189	$24,516,939
RTA SCIP I	$39,003,000	$38,572,000	$38,576,000	$38,589,000	$38,667,000	$38,551,000
RTA SCIP II	$9,231,000	$20,931,000	$34,417,000	$49,400,000	$64,721,000	$75,116,000
SAA	$216,000	$231,000	$241,000	$0	$0	$0
Collinsville	$1,444,400	$1,634,400	$1,709,400	$1,779,400	$1,864,400	$1,949,400
GRAND TOTAL	**$173,833,710**	**$195,685,881**	**$217,264,855**	**$237,799,235**	**$256,238,741**	**$273,700,693**

The MPEA's Dedicated State Tax Revenue bonds get transfers from the Build IL Fund for annual debt service. The McCormick Place Expansion Bonds are paid for from Chicago-related taxes, but there is a back up pledge of State sales tax in the case they are needed. **The MPEA foresees a need to use a portion of this pledge for debt service in FY 2006, approximately $4 million, and probably in future years until revenues pick up.** Total Debt service for Dedicated and Expansion bonds for the next four years is as follows:

FY 2006	$133.6 million
FY 2007	$139.5 million
FY 2008	$157.6 million
FY 2009	$163.5 million

The State pays debt service on the Regional Transportation Authority's SCIP bonds. There are issues with the timing of debt service payment on the bonds: The payment is delayed for six months, so the RTA must dip into its reserves to pay the debt service while waiting for the State's grant. This is difficult now at a time when the RTA is covering its own revenue bonds and operational expenses, while revenues are down. For FY 2006, if the payment is received by the first week of December, the RTA will have paid approximately $54 million of debt service from their reserves while waiting for the State grant. As the last authorized bonds are sold, and if authorization is increased, the payment that the RTA must make while waiting for the State grant will be harder to cover, unless revenues significantly improve.

The Illinois Sports Facilities Authority has reported that they have no issues covering their expected $24.5 million debt service payment in FY 2006.

BOND AUTHORIZATION

General Obligation Bonds

General Obligation bonds are seen as the most secure type of bond issuance by any government because they carry the pledge that the government will pay the bondholders from any and all revenues. States wishing to issue debt to aid in their budget crises have begun to use the G.O. pledge in new areas to make the sale of certain types of bonds more attractive in the current market. Illinois is no different, having legislated G.O. authorization for Tobacco "Securitization" bonds and more recently Pension Obligation Bonds. With these changes in the General Obligation arena, authorization has become more complicated. Below are authorization levels including legislative changes made over the past years to the General Obligation Bond Act:

TABLE 8: GENERAL OBLIGATION AUTHORIZATION LEVELS						
(in billions)	New Projects	Tobacco	Pension Systems	**Subtotal**	Refunding	**Total**
May 2000	$14.198	N/a	N/a	**$14.198**	$2.839	**$17.037**
June 2001	$15.265	N/a	N/a	**$15.265**	$2.839	**$18.104**
June 2002	$16.908	$0.750	N/a	**$17.658**	$2.839	**$20.497**
April 2003	$16.908	$0.750	$10.000	**$27.658**	$2.839	**$30.497**
January 2004	$16.927	$0.0	$10.000	**$27.677**	$2.839	**$29.766**

The current General Obligation bond authorization for new projects is $16.927 billion, with approximately $2.943 billion unissued since September 30, 2005. The $10 billion of authorization for Pension Obligation Bonds was sold all in one issuance in June 2003, while Tobacco "Securitization" bond authorization has expired.

The table on the following page lists the General Obligation Bond authorization level per statute, what has not been issued, and the remaining authorization "Available" after expected FY 2006 appropriations, as of September 30, 2005.

TABLE 9: STATUS OF G.O. and BUILD ILLINOIS BONDS As of September 30, 2005						
(in billions)	**Authorization**	**Bond Premium**	**Un-Issued**	**Appropriated †**	**Available: authorization + premium**	**Available: authorization - premium**
Capital Facilities	$7.320	$0.059	$1.363	$7.648	-$0.269	-$0.387
School Construction	$3.150	$0.093	$0.337	$3.082	*$0.161	-$0.025
Anti-Pollution	$0.480	$0.002	$0.024	$0.475	$0.007	$0.003
Transportation A	$3.432	$0.054	$0.245	$3.495	-$0.009	-$0.117
Transportation B	$1.882	$0.011	$0.405	$1.859	$0.034	$0.012
Coal Development	$0.663	$0.000	$0.569	$0.175	$0.488	$0.488
Subtotal	**$16.927**	**$0.219**	**$2.943**	**$16.734**	**$0.412**	**-$0.026**
Tobacco bonds	$0.750	$0	$0.750	$0	$0	$0
Pension bonds	$10.000	$0	$0	$10.000	$0	$0
Total	**$27.677**	**$0.219**	**$3.693**	**$26.734**	**$0.412**	**-$0.026**
	Limit		**Un-Issued**	**Outstanding**	**Available**	
Refunding°	$2.839		$0.971	$1.868	$0.971	$0.971
	Authorization	**Bond Premium**	**Un-Issued**	**Appropriated †**	**Available**	
Build Illinois	$3.806	$0.086	$0.688	$3.979	-$0.087	-$0.259
	Limit		**Un-Issued**	**Outstanding**	**Available**	
Build IL Refunding	Unlimited		N/a	$0.822	Unlimited	Unlimited
Source: Illinois Office of the Comptroller, "Recap of General and Special Obligation Bonded Indebtedness and Update of Comparisons of General and Special Obligation Bond Activity"						

†Includes cumulative expenditures for prior years up through FY 2005 and FY 2006 appropriations and reappropriations through September 30, 2005.

**Only $7 million of the School Construction Fund "available" is for the $3.05 billion School Infrastructure Program, while bond premium amounts can be used for this program.*

°Refunding is limited only by how much is outstanding at one time. As principal amounts are paid off, those amounts become available for future refundings.

Bond premiums are additional funds received from a bond sale when the market price of the bonds is higher than the issue price. These additional funds are separated out into the bond proceed funds when they are received and are used for projects. At this time it has not been decided how to use the bond premiums in the equation of authorization. The Office of Management and Budget is using the bond premiums in addition to authorized amounts. There is some argument as to whether the bond premiums should be subtracted from authorization levels.

Even if you add bond premium proceeds to the authorization amounts, the Capital Facilities category has $269 million more money appropriated than it has authorization for and Build IL is over by $87 million. The Transportation A category can make up the negative $9 million difference between authorization (plus premium) and appropriations through premiums from a couple more bond sales. If bond premiums are subtracted from authorization, thereby lowering the authorization amount available, then Capital Facilities, Transportation A and Build IL make a big leap in being over committed, School Construction crosses into being over committed, and Transportation B and Anti-Pollution would be almost out of authorization. For any new programs to be initiated, the legislature would have to increase General Obligation authorization in almost every category (except Coal Development).

State-Issued Revenue Bonds

Total Build Illinois bond authorization equals $3.806 billion with $686.8 million remaining unissued as of September 30, 2005. Timing of the issuance of bonds is dependent on construction schedules. There is no refunding limit placed on Build Illinois bonds.

The Build Illinois program began in 1985 as a $1.3 billion economic development initiative composed of $948 million in bonds and $380 million in current funding. Since that time, the bond program has been expanded and authorization increased several times:

TABLE 10: BUILD ILLINOIS AUTHORIZATION LEVELS

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

Locally-Issued Revenue Bonds

In August 2001, the Legislature increased authorization for the Metropolitan Pier and Exposition Authority by $800 million for another expansion of McCormick Place. These bonds were issued July 2, 2002. **The MPEA has an unissued authorization level of $0.9 million.** Navy Pier officials are looking into redevelopment. It is unclear at this early stage whether they will request an increase in bond authorization to pay for any redevelopment projects.

The Regional Transportation Authority's remaining authorization of Strategic Capital Improvement Project (SCIP) bonds per statute is $260 million. GOMB would like the $117 million the Authority has received in premiums to be subtracted from the authorization allowed leaving $143 million remaining. Negotiations on the authorization available for the sale of bonds are ongoing between the RTA and GOMB. The Authority may ask for an increase in SCIP bond authorization in the future to continue funding capital projects and maintenance.

In FY 2001, the General Assembly increased bonding authorization for the Illinois Sports Facilities Authority (ISFA) Act by $399 million to finance renovations for the Chicago Bears Stadium at Soldier Field and related lakefront improvements. The bonds were issued in October of 2001. **According to the ISFA, they have approximately $44.6 million of unissued authorization.**

CAPITAL PLAN

The Capital Plan was passed as a piece of the budget in Public Act 94-0015. Capital projects are paid from several sources, such as bond funds, various revenue funds, and Federal/Trust funds. Bond funds used for FY 2006 include: Build Illinois, Capital Development, School Construction, Anti-Pollution, Coal Development and Transportation A and B funds. The Governor's Office of Management and Budget was unable to provide a break out of the approved capital plan. The following totals in the FY 2006 table are from the Commission's efforts of analyzing the Act.

TABLE 11:
FY 2006 CAPITAL PROGRAM APPROPRIATIONS
($ Millions)

FUND TYPE	*NEW APPROPRIATIONS*	*REAPPROPRIATIONS*	*TOTAL*
Bond	1,423.3	2,892.8	4,316.1
Other	2,378.5	4,214.8	6,593.3
TOTAL	***3,801.8***	***7,107.6***	***10,909.4***

FY 2005 CAPITAL PROGRAM APPROPRIATIONS
($ Millions)

FUND TYPE	*NEW APPROPRIATIONS*	*REAPPROPRIATIONS*	*TOTAL*
Bond	34.5	3,648.2	3,682.7
Other	2,310.1	3,144.6	5,454.7
TOTAL	***2,344.6***	***6,792.8***	***9,137.4***

FY 2006 amounts are CGFA amounts.
FY 2005 figures per the Governor's FY 2006 Capital Plan.
FY 2005 Capital programs were approved in P.A. 93-0842.

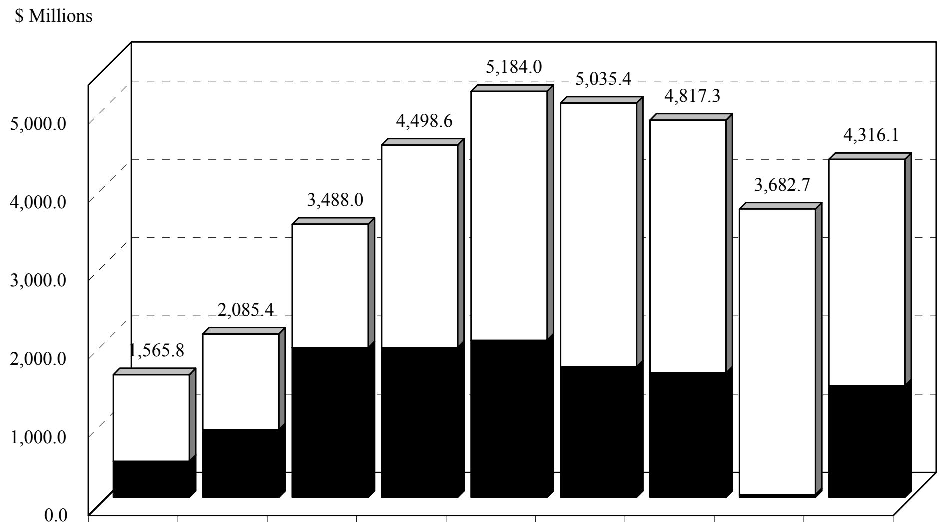
Added in to the $1.423 billion in FY 2006 bond fund new appropriation totals are the costs of administering the sale of bonds, almost $1.4 million from the Capital Development Fund for General Obligation bonds and $425,000 from the Build Illinois Bond Fund. Also in this category are budget line items of approximately $7.0 million for the Capital Development Board from the Capital Development Fund.

Bond Fund new appropriations are broken out as follows:

Build Illinois Bond Fund	$645.4 million
Capital Development Fund	$649.9 million
School Construction Fund	$ 18.0 million
Transportation B (mass transit)	$110.0 million

CHART 5

General Obligation Appropriations
Fiscal Years 1996-2006



	1998	1999	2000	2001	2002	2003	2004	2005	2006*
Reappropriations	1,106.7	1,223.7	1,577.0	2,586.2	3,178.9	3,370.0	3,229.8	3,648.2	2,892.8
New Appropriations	459.1	861.7	1,911.0	1,912.4	2,005.1	1,665.4	1,587.5	34.5	1,423.3

New Appropriations Reappropriations

*FY 2004 based on the Capital budget book, FY 2005 based on HB 7288 and SB 3374

Bond fund new appropriations jumped from the $34.5 million in FY 2005 to $1.423 billion in FY 2006. The FY 2006 new appropriations are back up to levels similar to FY 2003 ($1.665 billion) and FY 2004 ($1.588 billion). According to the Office of Management and Budget, many Illinois First initiatives were not reappropriated in FY 2005. The funds no longer reappropriated are available for new appropriations.

CREDIT RATINGS

Illinois' Rating

May 13, 2003, Moody's lowered the State of Illinois' rating from Aa2 to Aa3, after the sale of $1.5 billion in G.O. Certificates, the short-term borrowing plan to pay off overdue bills. On May 23, Fitch lowered Illinois' rating from AA+ to AA. Both agencies 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 of principal outstanding for the state's unfunded pension liability. Other factors involved were the second annual decline in State tax collections, an increase in the GAAP deficit recorded in the General Fund, budget uncertainty, and the increase of the State's debt ratios due to the issuance of the Pension Obligation Bonds. [Downgrades affect what is called State tax-supported debt. This includes General Obligation, Build Illinois, Civic Center, and McCormick Place Expansion Project bonds.]

RATING AGENCIES	JULY 1997	JUNE 1998	JUNE 2000	MAY 2003
Fitch Ratings	**AA**	**AA**	**AA+**	**AA**
Standard & Poor's	**AA**	**AA**	**AA**	**AA**
Moody's Investor Service	**Aa3**	**Aa2**	**Aa2**	**Aa3**

MAXIMUM RATING POSSIBLE
AAA or Aaa

In August of 2005, Standard & Poor's removed Illinois from their negative watch list and affirms their AA rating as stable due to improvements in the State's economy and tax revenues, and the enhancement of revenues and restraint in spending. The rating agency will be watching whether the State can lower its GAAP general fund deficit and pension liability in a steady and significant manner.

Fitch reaffirmed its AA rating of the State on the September G.O. bond sale but remains concerned over the Illinois' slow recovery, above-average debt levels (due to the Pension Obligation Bonds), and pension and Medicaid funding pressures.

Debt Comparisons: Illinois v. Other States

Table 12 shows Illinois' ranking in comparison with the top ten states for the most net tax-supported debt per capita as reported in Moody's *2005 State Debt Medians*. In 2003 debt per capita rose across the nation with the national average at $944; in 2004 the national average rose to $999. Illinois was ranked 11th highest in debt per capita for 2002, but moved higher on the charts to the 6th highest state in debt per capita where we have stayed in 2003 and 2004.

Moody's foresees that states will continue to use debt for capital finance, even as revenues improve from the recession. This is due to the fact that pressures from Medicaid, pension costs, and K-12 needs will take up budget resources. "With the recovery of state finances, demands for capital projects for schools, roads, environmental protection, and public universities is again growing rapidly…Despite the growing issuance of debt by states, overall state debt burdens remain relatively low and stable. While state debt per capita and debt to personal income have risen slightly in recent years, state debt burdens are still manageable…" (Moody's 2005 State Debt Medians).

TABLE 12: NET TAX-SUPPORTED DEBT PER CAPITA (using net state tax-supported debt as of the end of calendar year 2003 and 2004)				
	2003		2004	
RANK	STATE	PER CAPITA DEBT OUTSTANDING	STATE	PER CAPITA DEBT OUTSTANDING
1	Connecticut	$3,558	Connecticut	$3,614
2	Massachusetts	$3,333	Massachusetts	$3,372
3	Hawaii	$3,101	Hawaii	$3,343
4	New York	$2,420	New Jersey	$2,901
5	New Jersey	$2,332	New York	$2,593
6	**Illinois**	**$1,943**	**Illinois**	**$2,019**
7	Delaware	$1,800	Delaware	$1,865
8	Washington	$1,580	Washington	$1,598
9	Rhode Island	$1,385	California	$1,545
10	Wisconsin	$1,325	Rhode Island	$1,373
11	Oregon	$1,281	Oregon	$1,351
Range	$3,558 to $43 (Nebraska)		$3,614 to $42 (Nebraska)	

SOURCE: Moody's 2005 State Debt Medians
This table uses a measure done by Moody's rating agency with calendar year 2004 data.

Table 13 lists the ten states that have the highest net tax supported debt in the U.S. In 2003, the national total was $305 billion, and Illinois was ranked 3rd with $24.6 billion in net tax-supported debt, making up approximately 8.1% of the nation's total. In 2004 Illinois' net tax supported debt increased by $1.1 billion to $25.7 billion, still the 3rd highest state with 7.5% of the nation's total. California had the largest increase in debt by any state from $37.6 billion to $55.5 billion, an increase of $17.9 billion. The second biggest increase was New Jersey with $5.1 billion, and third was New York with $3.4 billion.

At the end of 2005 and beginning of 2006 we will see large debt increases for the Gulf Coast states hit by hurricanes this summer--Louisiana, Mississippi, Alabama, and Florida. Even with hurricane relief aid, and proposed special bond exceptions for these states, the amount of debt needed to rebuild destroyed infrastructure, public buildings, and private business will be substantial. All three rating agencies have put the debt of Louisiana and Mississippi and creditors within these states on their negative watch lists for possible downgrades, and Fitch downgraded nearly $1 billion of New Orleans' credits.

TABLE 13: 10 HIGHEST STATES IN NET TAX-SUPPORTED DEBT ($ in billions)						
	2003 National Total = $305.2			2004 National Total = $340.3		
RANK	STATE	DEBT	% OF NATION	STATE	DEBT	% OF NATION
1	New York	$46.4	15.2%	California	$55.5	16.3%
2	California	$37.6	12.3%	New York	$49.9	14.7%
3	**Illinois**	**$24.6**	**8.1%**	**Illinois**	**$25.7**	**7.5%**
4	Massachusetts	$21.4	7.0%	New Jersey	$25.2	7.4%
5	New Jersey	$20.1	6.6%	Massachusetts	$21.6	6.4%
6	Florida	$17.4	5.7%	Florida	$17.5	5.2%
7	Connecticut	$12.4	4.1%	Connecticut	$12.7	3.7%
8	Washington	$9.7	3.2%	Ohio	$9.9	2.9%
9	Ohio	$9.2	3.0%	Washington	$9.9	2.9%
10	Pennsylvania	$8.8	2.9%	Pennsylvania	$9.1	2.7%
Range	$46 billion to $74 million (Nebraska .02%)			$55 billion to $73 million (Nebraska .02%)		

Of the states listed in Table 13, four have seen actual ratings upgrades. Florida received single level upgrades across the board from all three rating agencies, Massachusetts received upgrades from S&P and Fitch, and New Jersey got an upgrade from S&P. California, which had received multiple downgrades from all three ratings agencies in 2003, received an upgrade from S&P in 2004 and an upgrade back to A from Fitch who had just downgraded them last year.

CHART 6

G.O. BOND RATINGS FOR SELECTED STATES
(as of October 13, 2005)

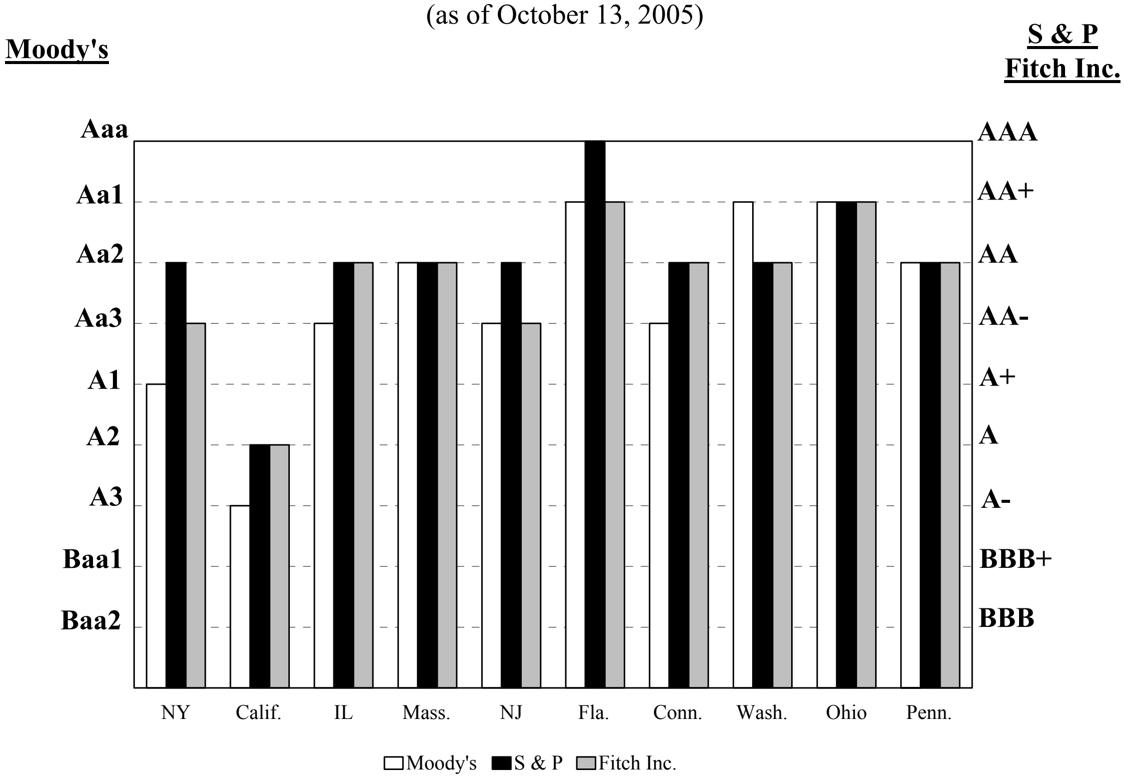
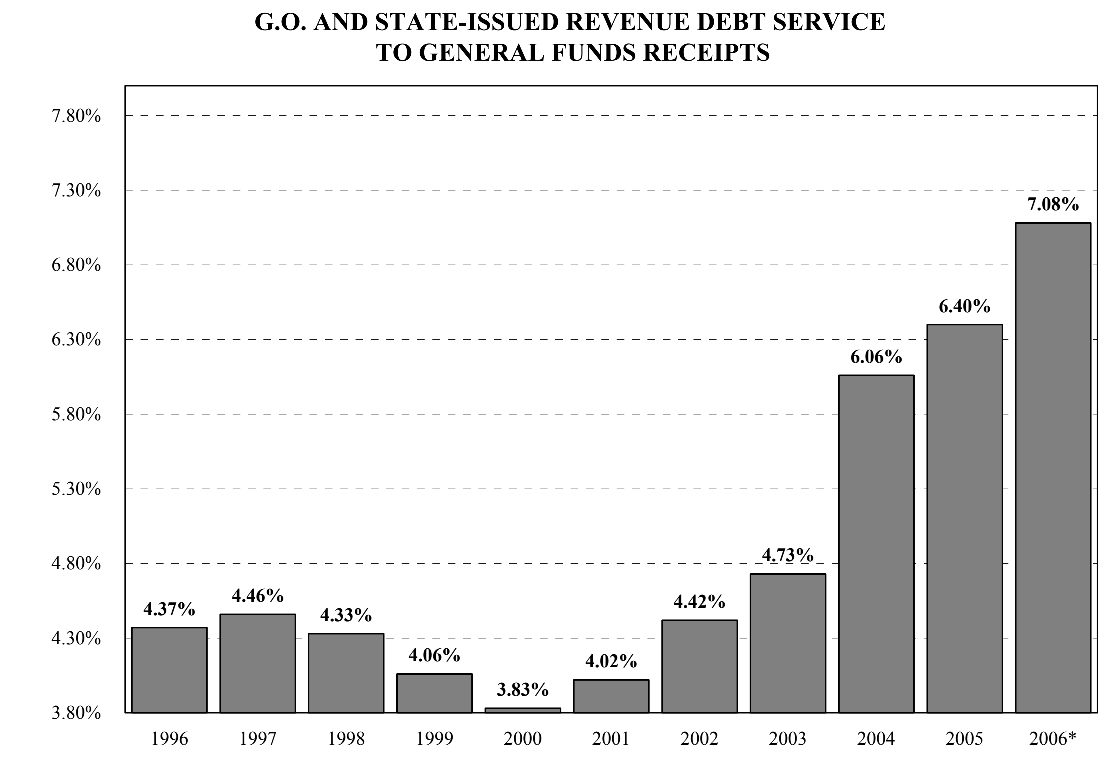


Chart 7 shows a history of general obligation and State-issued revenue debt service as a percentage of general funds receipts.

CHART 7



* IEFC Estimate

SUMMARY OF NON-STATE SUPPORTED BOND DEBT

Non-State-supported debt can be broken down into two categories based on the degree of State obligation: "no obligation" and "moral obligation". No obligation bonds, secured solely by project revenue, have no direct State obligation. These include "User charge" supported debt, which is paid for by charges to the user of the service or the constructed building, road, etc, and is issued by such authorities as the Illinois Student Assistance Commission (ISAC), the Illinois Housing Development Authority, State universities, and the Illinois State Toll Highway Authority. "Conduit debt" is backed by revenues from the project the bonds are sold for or by the local entity benefiting from the project, and is issued by such authorities as the Illinois Development Finance Authority, Illinois Educational Facilities Authority and the Illinois Health Facilities Authority (all three of which are now a part of the Illinois Finance Authority).

"Moral obligation debt" is that which the State pledges to back in case the issuing authority has insufficient funds to pay the debt. Bonding authorities issuing moral obligation debt must first receive approval from the Governor before each issue. In the event of default on moral obligation bonds - although the State is not legally obligated - the Governor must notify the General Assembly of any such shortfall and may include the amount in his budget for possible action by the legislature.

Moral Obligation Defaults

The State has seven authorities which are allowed to issue moral obligation debt with the approval of the Governor. Only four actually have moral obligation debt outstanding (as of June 30, 2005):

Illinois Housing Development Authority	$111.9 million
Southwestern Illinois Development Authority	$ 59.6 million
Illinois Finance Authority	$ 55.3 million
Upper Illinois River Valley Development Authority	$ 23.9 million
TOTAL	$250.7 million

There have been five loan payment defaults on moral obligation bonds issued at two of the authorities, one at the Upper Illinois River Valley Development Authority (UIRVDA) and four at the Southwestern Illinois Development Authority (SWIDA). Waste Recovery has received loans from both UIRVDA and SWIDA, with the State paying approximately $2.7 million to cover the debt service payments.

SWIDA has also had moral obligation defaults caused by the Laclede Steel Company. It is estimated that the State has paid close to $5 million from 1999 through 2001 for debt service since Laclede filed for Chapter 11. Laclede has paid the trustee $3.6 million to cover debt service from December 2001 through February 2006 and also turned over to the State 265,732 shares of stock in the reorganized company.

Spectrulite Consortium has also defaulted for the past few years on its loan from SWIDA, and the State has paid over $2 million for their debt service. FY 2006 will be the first year of default for Alton Center Business Park with the State expected to pay over $1.5 million in moral obligation debt service.

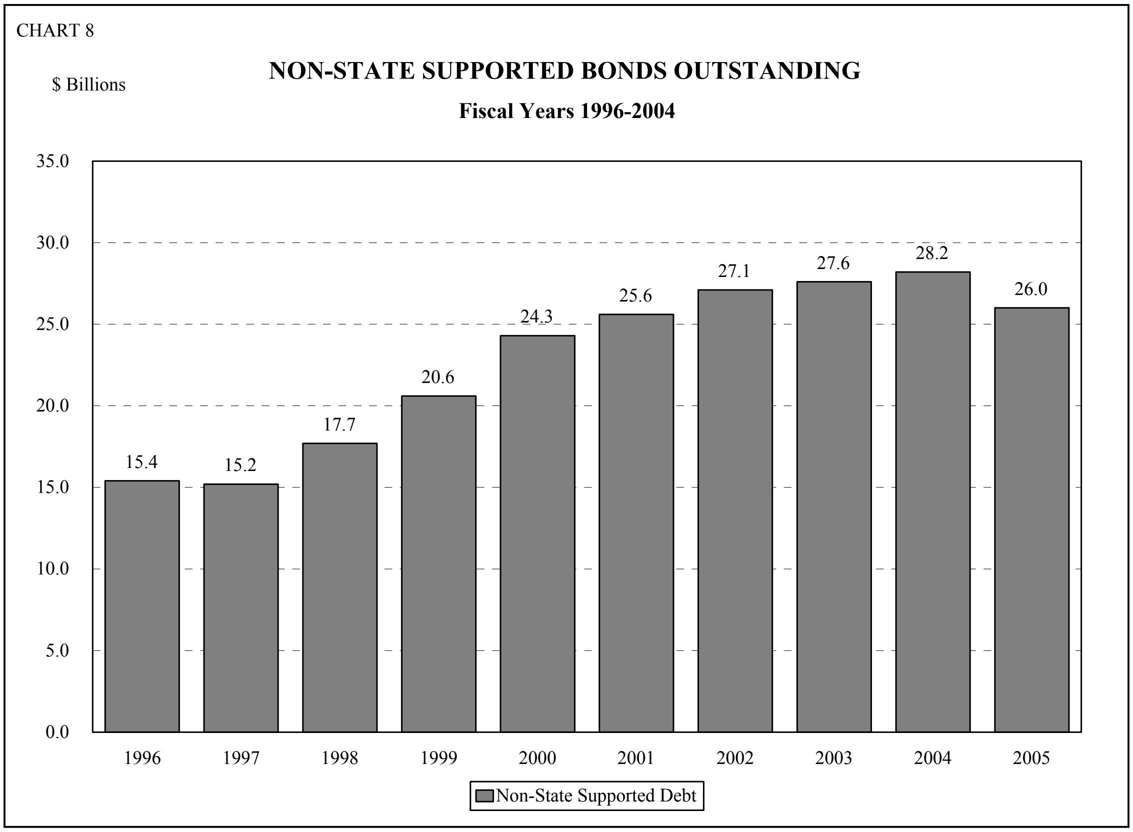


Chart 8 shows the level of outstanding debt for non-state supported bonds as reported by the issuing authorities. While principal increased in 2001 and 2002 over previous years by $1.2 billion to $1.5 billion each year, increases in 2003 and 2004 were $500 million and $600 million, respectfully, over 50% less than those amounts. While FY 2005 looks like outstanding principal has decreased, these numbers are not fully accurate, as the Illinois Finance Authority was unable to give moral obligation figures for itself and the Rural Bond Bank, and is therefore an estimated amount from the Governor's Office of Management and Budget. Table 14 gives a more detailed breakout of non-state supported bonds by each bonding authority.

TABLE 14: NON-STATE SUPPORTED DEBT BY BONDING AUTHORITIES			
Authority	**Type of Debt**	**Outstanding Principal FY 05**	**Bonds Issued in FY 05**
IL Finance Authority	conduit	$3,600,665,000	$1,515,664,900
IL Dev Finance Authy	conduit	$6,435,241,000	$0
IL Ed Facilities Authy	conduit	$2,839,076,000	$0
IL Farm Development Authority	conduit	$86,669,000	$0
IL Health Facilities Authority	conduit	$7,386,380,000	$0
IL Rural Bond Bank (non-moral)	conduit	$15,845,000	$0
QCREDA	conduit	$13,497,068	$0
RTA (non SCIP)	conduit	$733,660,000	$0
SWIDA (non-moral)	conduit	$128,587,139	$8,295,434
Upper IL RVDA (non-moral)	conduit	$58,135,000	$13,895,000
Will-Kankakee Regnl Dev Authy	conduit	$37,090,085	$0
CONDUIT TOTAL		**$17,734,180,292**	**$1,537,855,334**
IL Housing DA (moral)	moral	$116,121,701	$0
IL Rural Bond Bank (moral)	moral	$55,300,000	$0
QCREDA	moral	$0	$0
SWIDA (moral)	moral	$60,036,587	$0
Upper IL RVDA (moral)	moral	$23,565,000	$0
MORAL TOTAL		**$255,023,288**	**$0**
Chicago State University	usercharge	$22,400,000	$0
Eastern IL University	usercharge	$44,945,000	$0
IL Housing DA (non-moral)	usercharge	$1,390,325,000	$187,275,000
IL State University	usercharge	$52,980,000	$0
ISAC-IDAPP	usercharge	$3,752,865,000	$350,000,000
IL State Toll Highway Authority	usercharge	$1,427,445,000	$770,000,000
Northeastern IL University	usercharge	$21,730,000	$0
Northern IL University	usercharge	$117,631,000	$0
Southern IL University	usercharge	$184,115,720	$40,390,000
SURS	usercharge	$3,368,000	$0
University of IL	usercharge	$964,023,609	$93,410,000
Western IL University	usercharge	$46,125,000	$0
USERCHARGE TOTAL		**$8,027,953,329**	**$1,441,075,000**
TOTAL OF CONDUIT & USERCHRGE		**$25,762,133,621**	**$2,978,930,334**
TOTAL CONDUIT, USERCHRGE, & MORAL		**$26,017,156,909**	**$2,978,930,334**

Note: Amounts for the Illinois Finance Authority and the authorities combined under it are estimated amounts and not final numbers. These authorities include: Illinois Development Finance Authority, the Illinois Education Facilities Authority, the Illinois Farm Development Authority, the Illinois Health Facilities Authority, the Illinois Rural Bond Bank, the Illinois Community Development Finance Corporation, and the Illinois Research Park Authority

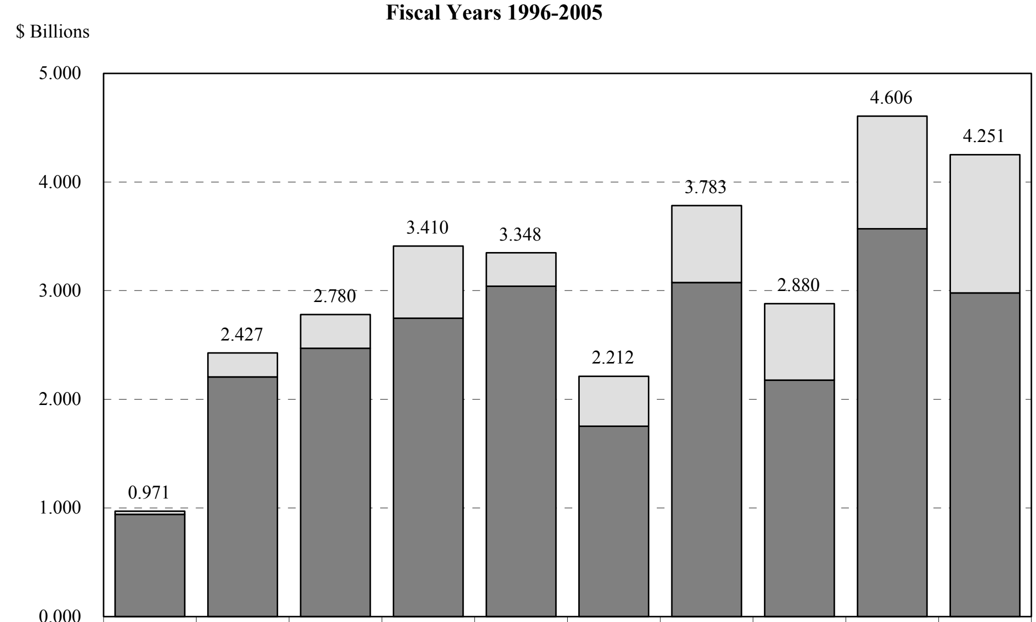
The Illinois Finance Authority's bonding authority combined the levels of its predecessors equaling $23 billion in outstanding bonds (excluding refunding bonds which may be issued to refund the bonds of the predecessor Authorities). These bonds are not obligations of the State, but under certain requests to the Governor, some bond issues (up to $500 million) may carry the State's moral obligation pledge. **The IFA received an extra $1 billion in authorization in FY 2005 and is still requesting an increase of another $5 billion in authorization.**

The Illinois State Toll Highway Authority sold $770 million of bonds in 2005 and plans to sell $700 million 2006 for its new 10-year overhaul and expansion.

CHART 9

NON-STATE SUPPORTED BOND ISSUES

Fiscal Years 1996-2005



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*
Refunding Issues	0.030	0.222	0.311	0.664	0.307	0.459	0.708	0.704	1.037	1.272
New Issues	0.941	2.205	2.469	2.746	3.041	1.753	3.075	2.176	3.569	2.979

New Issues Refunding Issues

* 2005 figures include CGFA estimates.

After a drop in FY 2003, bond issuance increased in FY 2004 by approximately 60%. Bond issuance decreased in FY 2005 by 7.7% to $4.251 billion. With lower interest rates and lower cash balances many bonding authorities have used refunding and the issuance of Certificates of Participation to help pay for projects.

APPENDIX

Payments to SERS from Various Funds for POB Debt Service

Effectively, Public Act 93-0839 requires SERS to certify a rate of payroll, based on the FY 2005 State payroll projection, which will allow SERS to collect $136.2 million in debt service through agency payrolls. Allowing SERS to collect debt service through agency payrolls requires non-GRF funds (including federal funds) to pay part of the debt service. It should be noted that some of the proceeds of the pension funding bonds reduced the unfunded liability of SERS, including some liability that is associated with employees at agencies that are funded by non-GRF and federal funds. Therefore, the Act provides a mechanism for non-GRF and federal funds to pay a share of the debt service on bond proceeds that were used to reduce the SERS unfunded liabilities.

Interest on Pension Obligation bonds was $496.2 million in FY 2005 and will be $496.2 million in FY 2006. Public Act 93-0839 required SERS to collect and pay a total of $136.2 million in FY 2005 for POB debt service. Of this amount approximately $69.2 million will be paid from employer contributions to SERS for FY 2005 debt service. The remaining $67 million in FY 2005 is to “repay” the General Revenue Fund for FY 2004 interest on POBs, even though this interest was capitalized (paid from the bond proceeds).

SERS receives State pension contributions from various funds, including the GRF. The change in P.A. 93-0839 occurred so that GRF would not have to pay all of the interest on bonds which funded systems that are also supported by other State funds. According to SERS, in FY 2005 about 37% of State payrolls are from non-GRF funds and federal funds. The additional amount that agencies must contribute to debt service due to the additional certification saved the State $50.3 million in GRF in FY 2005.

Payments to SERS from Various Funds for POB Debt Service		
FUND #	FUND NAME	Debt Service Paid in FY 2005
0001	GRF	$85,915,879.53
0011	Road Fund	$18,607,294.00
0012	Motor Fuel Tax	$700,455.53
0013	Alcohol & Substance Abuse Block Grant Fund	$68,718.64
0014	Food & Drug Safety Fund	$3,137.10
0016	Teacher Certificate Fee Revolving Fund	$9,888.81
0018	Transportation Regulatory Fund	$167,422.27
0021	Financial Institution Fund	$77,052.89
0022	General Professions Dedicated Fund	$83,381.18
0024	IL Dept. of Agriculture Laboratory Services Fund	$3,304.19
0026	Live & Learn Fund	$1,508.09
0036	IL Veterans' Rehabilitation Fund	$45,730.90
0039	State Boating Act Fund	$161,124.93
0040	State Parks Fund	$106,873.00
0041	Wildlife & Fish Fund	$558,100.77
0042	Salmon Fund	$6,279.70
0044	Lobbyist Registration Administration Fund	$9,624.72
0045	Agricultural Premium Fund	$80,386.01
0047	Fire Prevention Fund	$240,512.14
0049	Industrial Hygiene Regulatory Fund	$488.47
0050	Mental Health Fund	$114,485.59
0052	Title III Social Security & Employment Service Fund	$3,604,680.67
0054	State Pensions Fund	$106,368.80
0057	IL State Pharmacy Disciplinary Fund	$26,144.16
0059	Public Utility Fund	$494,897.41
0063	Public Health Services Fund	$688,512.06
0065	US Environmental Protection Fund	$614,166.12
0067	Radiation Protection Fund	$114,531.46
0071	Firearm Owners' Notification Fund	$2,584.08
0072	Underground Storage Tank Fund	$153,984.66
0074	EPA Special State Project Trust Fund	$1,478.19
0077	Mines & Minerals Underground Injection Control Fund	$9,419.74
0078	Solid Waste Management Fund	$239,865.78
0081	Vocational Rehabilitation Fund	$1,340,471.03
0085	IL Gaming Law Enforcement Fund	$49,788.36
0089	Subtitle D Management Fund	$36,300.79
0090	Special Federal Grant Project Fund	$11,978.78
0091	Clear Air Act Permit Fund	$348,848.69
0093	IL State Medical Disciplinary Fund	$83,364.95
0094	DCFS Training Fund	$18,896.42
0117	State Appellate Defender Federal Fund	$7,395.14
0118	Facility Licensing Fund	$5,568.07
0126	New Technology Recovery Fund	$3,691.66
0129	State Gaming Fund	$186,763.56
0131	Council on Developmental Disabilities Federal Trust Fund	$20,618.55
0137	Plugging & Restoration Fund	$7,645.39
0138	Home Rule Municipal Retailers' Occupation Tax Fund	$5,902.32
0141	Capital Development Fund	$169,626.01
0145	Explosives Regulatory Fund	$3,263.29
0146	Aggregate Operation Regulatory Fund	$6,969.58
0147	Coal Mining Regulatory Fund	$7,191.21
0151	Registered CPA Administration &Disciplinary Fund	$3,472.42
0153	EPA Court Ordered Trust Fund	$790.94
0156	Motor Vehicle Theft Prevention Fund	$5,599.29

FUND #	FUND NAME	Debt Service Paid in FY 2005
0163	Weights and Measures Fund	$39,508.34
0167	Registered Limited Liability Partnership Fund	$2,373.15
0175	IL School Asbestos Abatement Fund	$16,214.72
0177	CHIP Board Payroll Trust Fund	$52,692.80
0184	Violence Prevention Fund	$18,151.75
0185	Secretary of State Special License Plate Fund	$17,008.43
0190	County Option Motor Fuel Tax	$12,499.04
0193	Local Government Health Insurance Reserve Fund	$17,172.58
0195	IPTIP Administrative Trust Fund	$54,715.30
0203	Teacher' s Health Insurance Security Fund	$22,443.95
0206	Help Illinois Vote Fund	$887.49
0207	Pollution Control Board State Trust Fund	$9,258.72
0214	Brownfields Redevelopment Fund	$29,412.05
0215	Capital Development Board Revolving Fund	$129,357.76
0218	Professions Indirect Cost Fund	$226,370.11
0220	DCFS Children' s Services Fund	$58,877.25
0224	Asbestos Abatement Fund	$25,293.29
0238	IL Health Facilities Planning Fund	$20,475.71
0240	Emergency Public Health Fund	$2,721.11
0243	Credit Union Fund	$74,507.85
0244	Savings & Residential Finance Regulatory Fund	$82,721.06
0258	Nurse Dedicated & Professional Fund	$32,977.78
0259	Optometric Licensing & Disciplinary Committee Fund	$9,862.45
0261	Underground Resource Conservation Fund	$10,988.06
0262	Mandatory Arbitration Fund	$7,967.75
0270	Water Revolving Fund	$280,020.92
0272	LaSalle Veterans Home Fund	$33,551.30
0274	Self-Insurers Administration Fund	$7,760.80
0276	Drunk & Drugged Driving Prevention Fund	$14,518.69
0281	IL Tax Increment Fund	$7,006.68
0282	Hazardous Waste Occupational Licensing Fund	$1,717.33
0285	Long-Term Care Monitor/Receiver Fund	$5,431.67
0286	IL Affordable Housing Trust	$1,619.06
0288	Community Water Supply Laboratory Fund	$19,672.15
0292	Securities Investors Education Fund	$3,084.68
0294	Used Tire Management Fund	$55,268.36
0295	SOS Interagency Grant Fund	$25,839.53
0298	Natural Areas Acquisition Fund	$114,161.32
0299	Open Space Lands Acquisition and Development Fund	$24,542.24
0301	Working Capital Revolving Fund	$337,971.78
0303	State Garage Revolving Fund	$333,421.88
0304	Statistical Services Revolving Fund	$867,381.26
0308	Paper & Printing Revolving Fund	$6,303.75
0312	Communications Revolving Fund	$327,947.00
0314	Facilities Management Revolving Fund	$428,931.54
0315	Efficiency Initiatives Revolving Fund	$29,346.28
0317	Professional Services Fund	$186,391.15
0323	Motor Vehicle Review Board Fund	$6,884.15
0332	Workers' Compensation Revolving Fund	$45,767.00
0333	Federal Support Agreement Revolving Fund	$168,230.00
0336	Environmental Laboratory Certification Fund	$10,772.80
0340	Public Health Services Revolving Fund	$6,165.84
0343	Federal National Community Services Grant Fund	$7,287.68
0344	Care Providers for Persons w/ Develop. Disabilities Fund	$1,637.33

FUND #	FUND NAME	Debt Service Paid in FY 2005
0345	Long-Term Care Provider Fund	$25,068.18
0357	Child Labor Enforcement Fund	$3,605.95
0360	Lead Poisoning, Screening, Prevention & Abatement Fund	$25,015.01
0361	State Appellate Defender Special State Projects Fund	$1,454.59
0362	Securities Audit and Enforcement Fund	$126,493.11
0363	Dept. of Business Service Special Operations Fund	$47,537.29
0369	Feed Control Fund	$20,277.25
0370	Tanning Facility Permit Fund	$2,893.55
0372	Plumbing Licensure & Program Fund	$21,308.16
0376	State Police Motor Vehicle Theft Prevention Trust Fund	$6,406.18
0384	Tax Compliance & Administration Fund	$45,626.40
0386	Appraisal Administration Fund	$11,309.25
0387	Small Business Environmental Assistance Fund	$6,511.12
0388	Regulatory Evaluation and Basic Enforcement Fund	$130.86
0404	Urban Planning Assistance Fund	$2,328.84
0408	DHS Special Purpose Trust Fund	$171,458.57
0410	SBE Federal Department of Agriculture Fund	$31,519.26
0421	Public Aid Recoveries Trust Fund	$272,041.34
0422	Alternative Fuels Fund	$5,212.16
0434	Court of Claims Administration and Grant Fund	$5,509.27
0438	IL State Fair Fund	$30,235.61
0440	Agricultural Master Fund	$8,688.20
0447	GI Education Fund	$15,901.40
0455	IL State Toll Highway Revenue Fund	$3,514,217.08
0473	Teachers Retirement System Fund	$229,464.12
0476	Wholesome Meat Fund	$105,964.83
0477	Judges Retirement System Fund	$16,339.19
0479	State Employees Retirement System Fund	$157,469.23
0483	Secretary of State Special Services Fund	$127,888.04
0488	Criminal Justice Trust Fund	$71,019.38
0495	Old Age Survivors Insurance Fund	$991,441.81
0497	Federal Civil Preparedness Administrative Fund	$22,076.24
0502	Early Intervention Services Revolving Fund	$24,279.93
0523	Department of Corrections Reimbursement Fund	$456,446.23
0524	Health Facility Plan Review Fund	$34,018.70
0526	Emergency Management Preparedness Fund	$10,639.91
0529	IL State Board of Investments Fund	$30,998.77
0534	IL Workers' Compensation Comm Operations Fund	$361,211.41
0538	IL Historic Sites Fund	$21,216.75
0542	Attorney General Court Order & Voluntary Compliance Payment Projects Fund	$50,212.65
0546	Public Pension Regulation Fund	$18,061.63
0549	IL Charity Bureau Fund	$20,328.24
0550	Supplemental Low Income Energy Fund	$19,623.40
0557	IL Prepaid Tuition Trust Fund	$17,444.53
0560	SBE Federal Agency Services Fund	$1,055.89
0561	SBE Federal Department of Education Fund	$112,292.02
0562	Pawnbroker Regulation Fund	$2,121.18
0564	Renewable Energy Resources Trust Fund	$15,147.40
0566	DCFS Federal Projects Fund	$26,800.74
0568	School Infrastructure Fund	$16,532.34
0571	Energy Efficiency Trust Fund	$15,006.23
0576	Pesticide Control Fund	$47,188.66
0577	Community College Health Insurance Security Fund	$8,325.18
0580	Fire Prevention Division Fund	$5,044.88
0581	Juvenile Accountability Incentive Block Grant Fund	$12,280.14

FUND #	FUND NAME	Debt Service Paid in FY 2005
0592	DHS Federal Projects Fund	$18,431.77
0600	Attorney General Whistleblower Fund	$1,639.47
0607	Special Projects Division Fund	$37,535.40
0608	Conservation 2000 Fund	$43,633.54
0612	Wireless Service Emergency Fund	$1,580.44
0613	Wireless Carrier Reimbursement Fund	$1,611.78
0614	Capital Litigation Fund	$71,152.28
0618	Services for Older Americans Fund	$67,015.37
0619	Quincy Veterans Home Fund	$340,138.00
0622	Motor Vehicle License Plate Fund	$49,328.35
0632	Horse Racing Fund	$133,075.91
0635	Death Certificate Surcharge Fund	$9,880.83
0636	Commerce & Community Affairs Assistance Fund	$22,447.11
0637	State Police Wireless Service Emergency Fund	$44,576.31
0641	Auction Regulation Administration Fund	$3,537.10
0642	DHS State Projects Fund	$4,006.86
0646	Alcoholism & Substance Abuse Fund	$8,890.61
0649	Motor Carrier Safety Inspection Fund	$63,121.21
0664	Student Loan Operation Fund	$557,671.94
0668	College Savings Pool Administrative Trust Fund	$7,581.06
0689	Airport Land Loan Revolving Fund	$14,550.73
0700	USDA Women, Infants & Children Fund	$103,328.35
0708	IL Standardbred Breeders Fund	$2,587.88
0709	IL Thoroughbred Breeders Fund	$10,718.77
0711	State Lottery Fund	$350,556.46
0726	Federal Industrial Services Fund	$24,813.52
0731	Illinois Clean Water Fund	$142,669.74
0732	SOS DUI Administration Fund	$14,473.93
0733	Tobacco Settlement Recovery Fund	$26,887.12
0737	Energy Administration Fund	$7,378.76
0745	State's Attorneys Appellate Prosecutor's County Fund	$21,943.73
0746	Home Inspector Administration Fund	$4,774.31
0755	State Employees Deferred Compensation Plan Fund	$24,817.87
0757	Child Support Administrative Fund	$1,839,633.28
0759	Secretary of State Police Services Fund	$1,498.31
0762	Local Initiative Fund	$18,197.98
0763	Tourism Promotion Fund	$108,753.30
0765	Federal Surface Mining Control and Reclamation Fund	$51,262.23
0773	ISAC Loan Purchase Program Payroll Trust Fund	$294,108.78
0776	Presidential Library & Museum Operating Fund	$81,652.91
0791	National Center for Education Statistics Fund	$270.02
0795	Bank & Trust Company Fund	$393,641.73
0796	Nuclear Safety Emergency Preparedness Fund	$344,767.26
0798	Rehabilitation Services Elementary and Secondary Education Act Fund	$2,935.66
0801	Attorney General State Projects & Court Order Distribution Fund	$46,607.99
0802	Personal Property Tax Replacement Fund	$191,347.74
0808	Medical Special Purpose Trust Fund	$22,835.63
0821	Dram Shop Fund	$89,419.20
0823	IL State Dental Disciplinary Fund	$18,077.09
0826	Agriculture Federal Projects Fund	$4,847.38
0828	Hazardous Waste Fund	$118,968.56
0838	Public Health Federal Projects Fund	$2,241.67
0844	Continuing Legal Education Trust Fund	$3,595.00
0850	Real Estate License Administration Fund	$72,281.55
0851	Federal Moderate Rehabilitation Housing Fund	$2,837.98

FUND #	FUND NAME	Debt Service Paid in FY 2005
0855	National Flood Insurance Program Fund	$4,360.08
0859	Federal Energy Fund	$17,410.31
0863	Cycle Rider Safety Training Fund	$4,267.58
0870	Low Income Home Energy Assistance Block Grant Fund	$32,422.15
0871	Community Services Block Grant Fund	$13,751.58
0872	Maternal & Child Health Services Block Grant Fund	$69,489.52
0873	Preventive Health & Health Service Block Grant Fund	$25,648.13
0875	Community Development/Small Cities Block Grant Fund	$20,282.09
0876	Community Mental Health Services Block Grant Fund	$20,026.79
0879	Traffic & Criminal Conviction Surcharge Fund	$152,951.39
0882	Sheffield February 1982 Agreed Order Fund	$559.77
0883	Intra-Agency Services Fund	$69,565.90
0884	DNR Special Projects Fund	$1,156.36
0886	Criminal Justice Information Systems Trust Fund	$28,279.16
0888	Design Professionals Administration & Investigation Fund	$15,742.35
0894	DNR Federal Projects Fund	$8,023.40
0900	Petroleum Violation Fund	$24,870.18
0903	State Surplus Property Revolving Fund	$37,343.90
0904	IL State Police Federal Projects Fund	$108,965.67
0905	IL Forestry Development Fund	$15,741.06
0906	State Police Services Fund	$387,071.77
0907	Health Insurance Reserve Fund	$104,234.94
0911	Juvenile Justice Trust Fund	$5,904.69
0913	Federal Workforce Training Fund	$135,245.22
0920	Metabolic Screening & Treatment Fund	$62,477.56
0921	DHS Recoveries Trust	$93,663.99
0922	Insurance Producer Administration Fund	$238,418.59
0925	Coal Technology Development Assistance Fund	$30,510.26
0929	Violent Crime Victims Assistance Fund	$24,903.88
0938	Hearing Instrument Dispenser Exam. & Disciplinary Fund	$1,411.28
0940	Self-Insurers Security Fund	$5,735.93
0942	Radioactive Waste Facility Develop. & Operation Fund	$10,006.11
0944	Environmental Protection Permit & Inspection Fund	$247,638.04
0951	Narcotics Profit Forfeiture Fund	$8,118.63
0962	Park & Conservation Fund	$209,865.76
0963	Vehicle Inspection Fund	$182,285.27
0969	Local Tourism Fund	$7,420.00
0971	Build Illinois Bond Fund	$4,766.72
0973	Build Illinois Capital Revolving Loan Fund	$26,493.44
0975	Large Business Attraction Fund	$5,208.11
0980	Manteno Veterans Home Fund	$252,761.24
0982	IL Beach Marina Fund	$24,271.11
0988	Attorney General Federal Grant Fund	$24,919.66
0991	Abandoned Mined Lands Reclamation Council Fed Trust	$66,104.46
0993	Public Infrastructure Construction Loan Fund	$15,133.95
0997	Insurance Financial Regulation Fund	$355,121.40
	TOTAL	**$136,270,896.10**

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), 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;
5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
6) 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;
7) Administration of the State Facility Closure Act.

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 several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Bonded Indebtedness Report" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission's website.

These reports are available from:

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
(217) 782-5320
(217) 782-3513 (FAX)

http://www.ilga.gov/commission/cgfa/cgfa_home.html