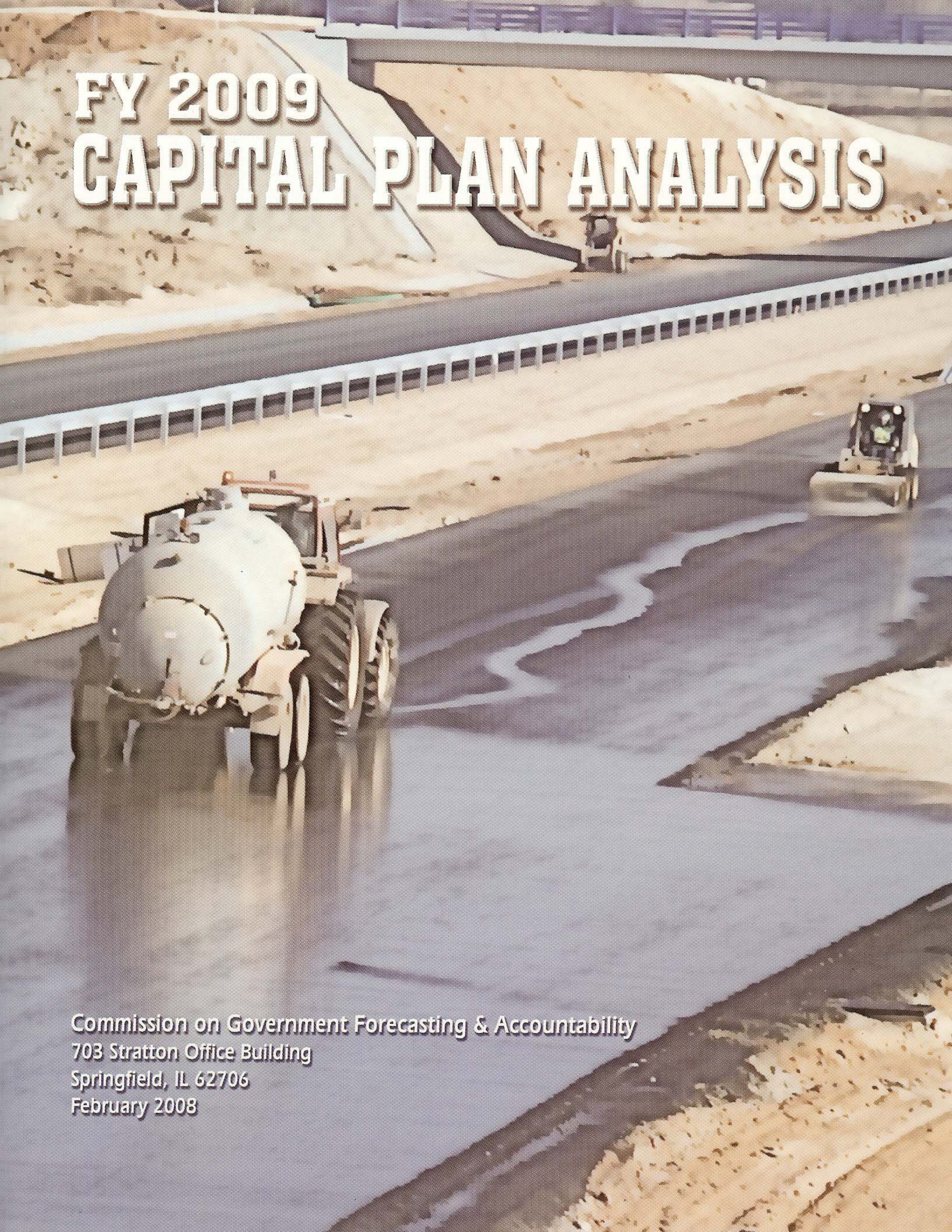
FY 2009
CAPITAL PLAN ANALYSIS



Commission on Government Forecasting & Accountability
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INTRODUCTION

State statute requires the Office of Management and Budget to prepare and submit an assessment of the State's capital needs both current and five years forward (20 ILCS 3010/1). This is presented as part of the Governor's Budget. The Commission on Government Forecasting and Accountability, in turn, is statutorily required each year to submit a capital plan analysis based on this information (25 ILCS 155/3).

The Capital Plan Analysis is divided into three sections. The first section of the report uses the Governor's capital expenditure plan, which lists projects to be funded from the FY 2009 appropriation request. This analysis is based on what is contained in the capital budget book. It is used as a basis for looking at the Governor's project priorities and should provide insight into what can be expected to occur if the Governor's budget recommendation is approved. This report also shows the Governor's recommended appropriations for State capital needs.

The second section discusses current bond-related topics, such as the resolution to the Northeastern Illinois Mass Transit funding crisis and the issues facing the Metropolitan Pier and Exposition Authority. It takes a look at the Governor's capital and debt proposals, from leasing the Lottery to tobacco securitization and more pension bonds. This section also includes information related to programs and borrowing that the Commission tracks: the School Construction Program, the Toll Highway Authority's Congestion Relief Program, the State's Short-term borrowing, and whether the Office of Management and Budget is following the debt responsibility and transparency guidelines set by the Legislature.

The third section of the report looks at how the Governor's FY 2009 recommended capital plan would affect the State's bonded indebtedness. It details the General Obligation and Build Illinois bond authorization available, the level of proposed bond sales, future debt issuance, and annual debt service. Although the FY 2003 Pension Obligation Bonds are not a part of the Capital Budget, they will be noted throughout the report since they impact the State's debt.

EXECUTIVE SUMMARY

- The Governor is proposing a $25 billion Capital Program called Illinois Works which includes a $14.4 billion multi-year program for highways and bridges, a $3.8 billion school construction program, $1 billion for economic and community development, $1.1 billion for energy programs, and $600 million for State facility projects.

- With G.O. debt service (including the 2003 Pension Obligation Bonds) currently at approximately $1.7 billion, there is room for approximately $489 million in additional debt service in FY 2009. As long as interest rates stay at or below 5.5%, the State could sell approximately $5.2 billion in G.O. bonds and stay under the 7% debt cap. This could cover the proposed $3.8 billion in bonds for the capital budget and a $1.5 billion Tobacco Settlement Securitization bond issuance, however, the authorization level of G.O. bonds would have to be raised to sell these amounts.

- Part of the FY 2009 budget proposed is a 50-year lease of 80% of the lottery, in exchange for a $10-$12 billion payment. Of this payment, $7 billion would be used to partially fund the Illinois Works program. The remaining $3-$5 billion would be deposited into an investment fund that would be used, in conjunction with the revenue from the 20% of the lottery that the State would retain, to assure payments of at least $600 million per year to fund education over this time period for education. An analysis of how the $10 to $12 billion payment was calculated was not provided to the Commission.

- The Governor is advocating a $16 billion Pension Obligation Bond sale in FY 2009 and would like the standards for selling the POBs to be relaxed so that debt service payments could be structured differently from the required level principal payment. Total debt service to be paid over the 30-year life of the bonds could range from $30 billion (fixed principal payments) to $38 billion (GOMB estimate) based on GOMB's interest rate assumption of 5.9%.

- Another bonding plan would be to sell Tobacco Securitization bonds, up to $500 million in taxable tobacco revenue bonds and up to $1 billion in tax-exempt bonds, to transfer the risks of receiving the Master Settlement Agreement (MSA) payments to bond holders. The proceeds from the securitization would pay for the Governor's Protecting Illinois Families Program, which is a combination of tax cuts for families (doubling the Federal economic stimulus payments for children) and an Illinois business tax cut.

- The Illinois Sports Facilities Authority (ISFA) is reviewing the possible purchase of Wrigley Field to renovate it. The city of Chicago would have to relax the Field's landmark designation to allow parts of the Field to be torn down and rebuilt, and for possible naming rights to be sold. As part of the deal, the owner of the Cubs would be held to a 30-year lease and a portion of revenues would be paid toward debt service.

FY 2009 RECOMMENDED CAPITAL BUDGET

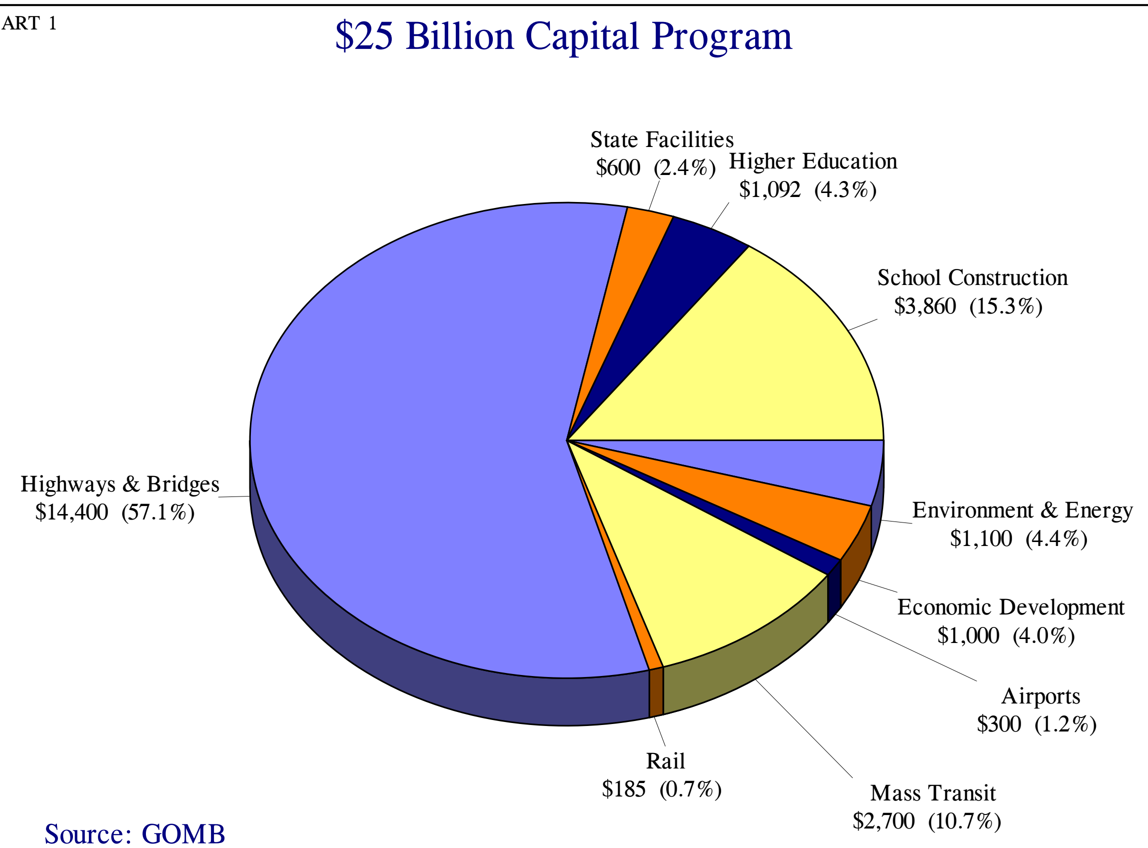
- $25 Billion Illinois Works Capital Program
- FY 2009 Capital Plan Appropriations
- FY 2009 Capital Projects by Agency
- Appropriation History

$25 Billion Illinois Works Capital Program

This section of the report is based on the Governor's multi-year capital expenditure plan. The Governor is proposing a $25 billion Capital Program called Illinois Works.

Below is a break out of the $25 billion program by category.

CHART 1



To fund this program, the Governor's Office of Management and Budget plans:

- to capture $9 billion in federal funds,
- use $7 billion from the Governor's plan to lease the Lottery (see Current Bond Topics: Governor's Lottery Lease Proposal, page 26),
- sell $3.8 billion in bonds,
- receive approximately $1.9 million in local matches (for school construction projects), and
- pay the remainder of the program from other State Funds. Many environmental capital projects are paid from specific State Funds that receive revenues from fees and fines, while transportation projects have also been paid for from State Funds, mainly the Road Fund (over $3.2 billion for FY 2007-FY 2008 new appropriations) and the State Construction Account Fund (over $1 billion for FY 2007-FY 2008 new appropriations).

The Governor's proposal includes a $14.4 billion multi-year program for highways and bridges paid for from approximately $7.4 billion in federal funds, $1 billion in bonds and the remaining amounts from the Road Fund and State Construction Account. There would also be $2.7 billion for mass transit, using $1.7 billion from federal funds, $530 million in bonds, and the remainder from State funds, including a new fund to be created called the Illinois Works Fund. Approximately $500 million would be used for Statewide rail and aeronautics projects, with almost $200 million coming from federal funding.

Bonds for road and bridge construction would be partially funded with Road Fund revenues, while bonds for mass transit and road projects in the Tollway region would be paid from an increased toll on commercial vehicles using the Tollway. According to the Governor's Office of Management and Budget (GOMB), the bonds sold for road projects and funded by the Road Fund could be sold as G.O. bonds or as revenue bonds under a new revenue fund bond act proposed by GOMB, depending on "what scenario will provide the State with the lowest cost of funds".

The Capital Program also includes a $3.8 billion school construction program paid for by $1.9 billion pay-as-you-go from the Illinois Works Fund and $1.9 billion in local matching funds (a current requirement of the school construction program). A part of this program would be a three-year $1.7 billion School Construction plan, which would appropriate $583 million a year to address classroom shortages and aging facilities. In addition, the program includes $150 million to be spent over three years for maintenance projects and $30 million over three years for Pre-K construction programs for school districts and non-profit organizations. Both programs would again be pay-as-you-go from Lottery lease revenues. The Office of Management and Budget would like to lease 80% of the Illinois State Lottery and expects to receive $7 billion in proceeds which would be deposited into the Illinois Works Fund to be the State's pay-as-you-go fund for projects.

Funding for higher education would include $642 million for public universities, $250 million for community colleges and $200 million for private universities, a large portion of which would be spent in FY 2009.

The final pieces to the Governor's $25 billion capital program would be the use of $1 billion for economic and community development, $1.1 billion for energy programs, and $600 million for State facility projects. To fund these programs there will be approximately $695 million in bonding for Capital Development, $45 million in bonding for Coal and Energy Development, and the remainder would be paid from the Illinois Works Fund and other State funds.

FY 2009 Capital Plan Appropriations

The following tables breakout the amount of appropriations by fund type for FY 2009 and FY 2008.

TABLE 1: FY 2009 CAPITAL PLAN REQUESTED APPROPRIATIONS ($ in Millions)			
FUND TYPE	**NEW APPROPRIATIONS**	**REAPPROPRIATIONS**	**TOTAL**
Bond	$0	$2,103	**$2,103**
Illinois Works Fund	$4,606	$0	**$4,606**
Revenue	$2,371	$3,944	**$6,315**
Federal/Trust	$161	$359	**$520**
TOTAL	**$7,137**	**$6,406**	**$13,543**

Table 1 shows the FY 2009 budget request for the capital program, which includes new appropriations of $7.1 billion and reappropriations of $6.4 billion, for a total of $13.5 billion. All bond funds would be used for FY 2009, but only for reappropriations. Of the $7.1 billion in new appropriations, $4.6 billion, or 64.5%, would come from the Governor's newly proposed Illinois Works Fund.

TABLE 2: FY 2008 CAPITAL PLAN APPROPRIATIONS ($ in Millions)			
FUND TYPE	**NEW APPROPRIATIONS**	**REAPPROPRIATIONS**	**TOTAL**
Bond	$0	$2,091	**$2,091**
Revenue	$2,303	$3,950	**$6,253**
Federal/Trust	$161	$374	**$535**
TOTAL	**$2,464**	**$6,415**	**$8,879**

The current FY 2008 new appropriations of $2.5 billion represent 27.8% of the $8.9 billion total capital appropriation request. New appropriations for FY 2009 of $7.1 billion are 52.7% of the $13.5 billion request for renovations and construction projects.

When comparing FY 2009 and FY 2008 appropriations by fund type, the traditional funding sources--Bond, Revenue, and Federal/Trust funds—have amounts that are practically the same for both years. The increase in appropriations in FY 2009 all comes from the Illinois Works Fund. If the Lottery lease does not occur, then it will effectively stop any new programs, unless another revenue stream is found.

The budget request for appropriations to the Capital Development Board (CDB) and through CDB for other agencies for capital projects, including new appropriations and reappropriations, totals $3.1 billion, to be paid for completely by the Governor's new Illinois Works Fund. Approximately $2.0 billion, or 64.9%, of the requested CDB appropriations for FY 2009 represents new appropriations for the renovation or construction of facilities. The remainder of the Governor's request of new appropriations would be appropriated to specific agencies. In FY 2007 actual appropriations for CDB equaled $1.648 billion, of which only $30.1 million were for new appropriations**.** There were no new appropriations to CDB in FY 2008.

TABLE 3: FY 2009 CDB REQUESTED APPROPRIATIONS			
($ in Millions)			
FUND TYPE	**NEW APPROPRIATIONS**	**REAPPROPRIATIONS**	**TOTAL**
Capital Development	$0	$881	**$881**
School Construction	$0	$30	**$30**
Build Illinois	$0	$168	**$168**
Illinois Works	$2,001	$0	**$2,001**
Asbestos Abatement	$0	$1	**$1**
TOTAL	**$2,001**	**$1,080**	**$3,081**

FY 2009 Capital Projects by Agency

The projects in this section are only those for which a new appropriation is being sought (reappropriations are not listed). The following pages show new capital project requests listed by agency. Due to the changes in format of the Capital Budget presented by the Office of Management and Budget, the appropriations spending over the five-year plan are not available.

Agriculture

The Governor's capital budget request of $11.3 million to the Department of Agriculture consists of 7.9 million from his Illinois Works Fund, $2.6 million from the Partners for Conservation Projects Fund (formerly Conservation 2000 Projects Fund), and $0.8 million from the Agricultural Premium Fund.

PROGRAMS ($ millions)	FY 2009 (in millions)
• IL State Fairgrounds, Springfield: various repairs	$5.3
• Statewide: Grants to Soil and Water Conservation Districts	5.2
• Centralia Animal Diagnostics Lab: replace roof	0.6
• DuQuoin Fairgrounds: various repairs	0.3

Architect of the Capitol

Approximately $49.8 million would be appropriated from the Illinois Works Fund for projects at the Capitol, including renovation of HVAC and for ADA compliance and upgrades to life/safety protection systems.

Attorney General

The Attorney General Building in Springfield would receive $1.4 million from the Illinois Works Fund for the replacement of electronic ballasts and for installing an emergency generator and lighting.

Board of Education

Approximately $5 million would be appropriated from the Illinois Works Fund for the Board of Education for a grant for technology immersion.

Capital Development Board (CDB)

The Capital Plan request for the Capital Development Board is $898.4 million, all of which would come from the newly proposed Illinois Works Fund. Through CDB, the School Construction Program would receive $583 million, while $50 million would go to grants for School maintenance projects, and $10 million for Pre-K Construction. These appropriations are the first third of a $1.9 billion three-year program, which would appropriate these same amounts in FY 2010 and FY 2011, and would be pay-as-you-go from the Governor's idea to lease the Illinois Lottery. Of the $583 million in FY 2009, $149 million would go to cover 24 school district projects which have already been approved for funding. The remaining $434 million would go towards applications from FY 2003 that meet program requirements. Authorization would have to be increased for the sale of additional bonds. For more information on the School Construction Program and its funding, see page 23.

PROGRAMS ($ millions)	FY 2009 (in millions)
• School Construction Grants	$583.0
• Statewide: Capital improvements at Private Colleges and Universities	200.0
• Statewide: School Maintenance grants	50.0
• Statewide: escalation costs for state facilities projects	25.2
• Statewide: escalations and emergencies for Higher Education projects	25.0
• Statewide: grants for Pre-K construction	10.0
• Statewide: statewide emergencies	4.0
• Statewide: removal of hazardous materials at State Facilities	1.2

Central Management Services (CMS)

The recommendation for CMS is $26.5 million to come entirely from the Illinois Works Fund, with the main projects listed below:

PROGRAMS ($ millions)	FY 2009 (in millions)
• Infrastructure Improvement, hardware & shared services	$13.5
• James R. Thompson Center: upgrade HVAC system, renovate elevators	8.6
• Elgin Regional Office Building: upgrade HVAC system	2.5
• Collinsville Regional Office Building: replace the roof	2.0

Commerce and Economic Opportunity (DCEO)

The $737 million in new appropriations for DCEO comes primarily from the Illinois Works Fund ($734 million), while the remaining appropriations come from the Port Development Revolving Loan Fund ($3.0 million).

PROGRAMS ($ millions)	FY 2009 (in millions)
• Illinois Community Assets: economic, housing, healthcare development	$301.0
• Statewide: grants to local governments for public infrastructure	200.0
• Statewide: Coal Demonstration Program - gasification projects	77.5
• U of I: Petascale Computing Facility	60.0
• Statewide: build 20 ethanol, 3 cellulosic ethanol, & 5 biodiesel plants	25.0
• Statewide: grants to local governments for civic center improvements	25.0
• Fermilab: Illinois Accelerator Research Center	17.0
• Argonne National Lab: Advanced Protein Crystallization Facility	13.0
• Statewide: 900 more E-85 fuel pumps across the State	6.0
• Statewide: Business energy efficiency loan program	5.0
• Statewide: Port Development Revolving Loan Program grants	3.0
• Abraham Lincoln Capital Airport/Illinois Air National Guard: entrance road	2.0
• U of I, U-C: Information Trust Institute-Center for Pervasive Health Technology	2.0
• U of I, Chicago: planning for campus improvements	0.5

Community College Board

The Community College Board would receive $184.1 million from the Illinois Works Fund: $175 million for the Enhanced Construction Program to replace temporary buildings and $9.1 million for the Community College Capital Renewal program.

Corrections

The FY 2008 Capital Budget requests approximately $22 million from the Illinois Works Fund for State correctional facilities for various projects.

Emergency Management Agency

The Illinois Works Fund would provide $25 million for safety and security improvements at various public and private universities, and community colleges.

Environmental Protection Agency (EPA)

The Environmental Protection Agency would receive a total $280 million, of which $232 million would come from the Water Revolving Fund and $48 million from the Illinois Works Fund for the following programs:

PROGRAMS ($ millions)	FY 2009 (in millions)
• Statewide: Wastewater Loan Program	$170.0
• Statewide: Drinking Water Loan Program	62.0
• Statewide: Leaking Underground Storage Tanks	25.0
• Statewide: Water Revolving State Match	22.0
• Statewide: River Edge Redevelopment Zones for Brownfields	1.0

Higher Education

The FY 2009 capital plan requests $607.8 million in new capital appropriations to State Universities through the Capital Development Board from the Illinois Works Fund. The composition of BHE's capital budget is slightly different from that of the other State agencies. Portions of higher education's maintenance projects are funded through a capital renewal program for repairs and maintenance, which allocates amounts statewide to the various State universities, in FY 2009 that amount would be approximately $40.8 million. Specific projects are listed below:

PROGRAMS ($ millions)	FY 2009 (in millions)
• SIU, Edwardsville: renovate/construct science lab	$75.3
• NIU: construct education building	66.4
• WIU: construct Performing Arts Center	65.2
• U of I, Champaign-Urbana: renovate Lincoln Hall	55.1
• SIU, Carbondale: Transportation Education Center	54.5
• ISU: renovate Visual Arts Center	50.7
• U of I, Champaign-Urbana: construct Computer/Engineering Building	42.0
• EIU: renovate/replace Power Station	25.0
• SIU, Carbondale: Morris Library equipment	21.8
• NIU: renovate/expand Stevens Building	20.1
• U of I, Champaign-Urbana: Post Harvest Crop Research Facility	18.9
• CSU: renovate Douglas Hall	18.8
• WIU, Quad Cities: construct Riverfront Campus	15.2
• U of I, Rockford: construct National Rural Health Center	14.3
• CSU: new Westside campus	10.0
• SIU School of Medicine, Spfld: Regional Center for Patient Safety	10.0
• GSU: campus roadway improvements	2.0
• EIU: equipment & renovate/expand Doudna Fine Arts Center	1.5

Historic Preservation

The Illinois Works Fund would provide $1 million to the Lincoln-Herndon Law Office Historic Site to purchase and restore the Tinley Shop, and $570,000 to Lincoln's Tomb for interior restoration.

Human Services

The Capital Budget request for the Department of Human Services is $15.3 million from the Illinois Works Fund for projects at the various mental health and developmental centers, and the Illinois School for the Visually Impaired. Projects include upgrading or replacing fire alarm systems, life safety systems, generators, roofs, buildings and other systems.

Illinois Finance Authority

The capital plan recommends $13 million for the Illinois Finance Authority. The Fire Truck Revolving Loan Fund would pay for $9 million in loans, statewide, to fire departments, fire protection districts and township fire departments to purchase fire trucks. The Ambulance Revolving Loan Fund would pay $4 million in loans to fire departments, fire protection districts, township fire departments, and non-profit ambulance services to purchase ambulances.

Juvenile Justice

The request for Illinois Youth Centers is approximately $1.3 million to replace roofs and upgrade HVAC systems.

Natural Resources

The Department of Natural Resources would receive $99.2 million in new appropriations under the Governor's capital plan, from various federal/state trust funds and revenue funds. This amount includes $43.7 million from the Illinois Works Fund, $7.6 million in federal/state trust funds, and an additional $47.9 million from specific natural resource-related funds, such as: the Park & Conservation Fund, Wildlife & Fish Fund, State Boating Act Fund, Natural Areas Acquisition Fund, Open Space Land Acquisition & Development Fund, and Land & Water Recreation Fund, to name a few. Some of the big-ticket programs are listed below:

PROGRAMS ($ millions)	FY 2009 (in millions)
• Natural Areas and Open Space Land Acquisition	$26.0
• Water Resource Management Projects	24.3
• Parks and Trails (bike, recreational, snowmobile, & off-highway vehicles)	13.5
• IL River Basin: Conservation Reserve Enhancement	10.0
• Abandoned Mined Lands Reclamation	7.5
• Wildlife Conservation and Restoration	2.9

Revenue

The Capital Budget request for the Department of Revenue is $27 million from the Illinois Works Fund.

PROGRAMS ($ millions)	FY 2009 (in millions)
• Statewide: New Technology Center	$24.1
• Willard Ice Building: renovate parking ramp	2.8
• Willard Ice Building: repair emergency generator	0.1

Secretary of State

The Secretary of State would receive $105.6 million from the Illinois Works Fund for the following projects:

PROGRAMS ($ millions)	FY 2009 (in millions)
• Stratton Building: for renovation or replacement of Stratton Building	$100.0
• Howlett Building: upgrade HVAC; install emergency generator	4.3
• Capitol Complex: upgrade fire alarm panels	0.8
• Illinois State Library: replace the roofing system	0.5

State Police

For the State Police, approximately $47.2 million from the Illinois Works Fund would fund the following programs:

PROGRAMS ($ millions)	FY 2009 (in millions)
• St. Clair County: construct Metro-East Forensic Lab	$33.5
• Cook County: expansion of Chicago Forensic Lab	10.0
• American General Building, Springfield: emergency generator	3.0
• Joliet Crime Lab, Will County: installing water and sewer lines	0.7

Supreme Court

The Illinois Works Fund would pay $14.4 million for renovations of the former 4th Appellate Court space in Springfield.

Transportation (IDOT)

The Governor has requested $3.945 billion in new appropriations for IDOT from various funds. Most of the funding for appropriations would come from $1.7 billion in Illinois Works Funds, $1.3 billion in Road Funds and $758 million from the State Construction Account Fund. Federal Funds would make up approximately $153 million of funding ($137 million from the Federal Local Airport Fund and $16 million from the Federal Mass Transit Trust Fund), while $24.8 million would come from the Grade Crossing Protection Fund, $2.7 million from the State Rail Freight Loan Repayment Fund, and $1 million from the Rail Freight Loan Repayment Fund.

Also proposed is a $14.4 billion multi-year program for Transportation paid for from federal funds; some bonding; and pay-as-you-go funding from the Illinois Works Fund, Road Fund and State Construction Fund. According to the GOMB, road and bridge construction bonds would be partially funded with Road Fund revenues and mass transit and road projects in the Tollway region would be paid from an increased toll on commercial vehicles on the Illinois Toll Highway.

PROGRAMS ($ millions)	FY 2009 (in millions)
• Statewide: transportation-related construction	$2,976.9
• Transportation grants for Mass Transit	400.0
• Local projects (including State and Federal Pass through)	171.0
• Statewide rail services (Amtrak)	160.0
• Federal/Local: financial assistance to airports	137.0
• Statewide: grants for air navigation	25.0
• Grade Crossing protections/separations	24.8
• Chicago Region Environmental & Transportation Efficiency Program (rail)	20.0
• Grant for Federal Share of Mass Transit projects	16.0
• Will County: 3rd Chicago Airport	10.5
• Rail Freight Loan Repayment (State & Federal)	3.7

Veterans Affairs

The Department of Veterans Affairs would receive approximately $19.5 million from the Illinois Works Fund. Below is a list of programs for veterans' home facilities.

PROGRAMS ($ millions)	FY 2009 (in millions)
• Construction of a new 200-bed facility	$15.0
• Quincy Veterans Home: various projects	2.4
• LaSalle Veterans Home: various projects	2.1

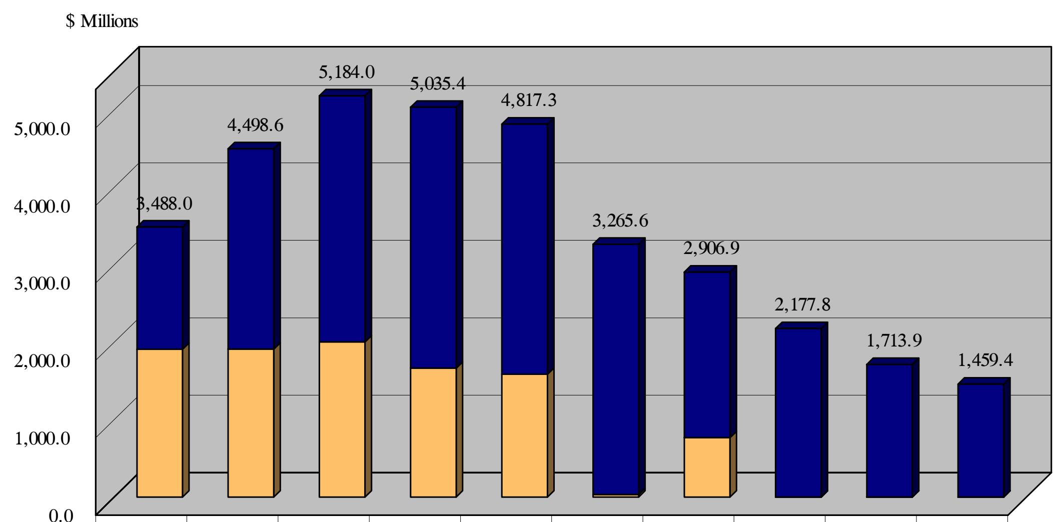
Appropriation History

According to the Capital Plan request, there would be no bond funds used for new appropriations in FY 2009, but instead appropriations would be funded from the Illinois Works Fund.

The annual General Obligation appropriations from FY 2000 to the recommended FY 2009 amounts are illustrated in Chart 2. The lowest years with new appropriations were FY 2005 with only $34 million and FY 2007 with $79.3 thousand. FY 2008 and FY 2009 new appropriations for General Obligation bonds would be $0.

CHART 2

General Obligation Appropriations



	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008*	2009*
Reappropriations	1,577.0	2,586.2	3,178.9	3,370.0	3,229.8	3,231.6	2,138.4	2,177.7	1,713.9	1,459.4
New Appropriations	1,911.0	1,912.4	2,005.1	1,665.4	1,587.5	34.0	768.5	0.1	0.0	0.0

New Appropriations Reappropriations

Note: FY 2008 numbers are based on SB 1766.

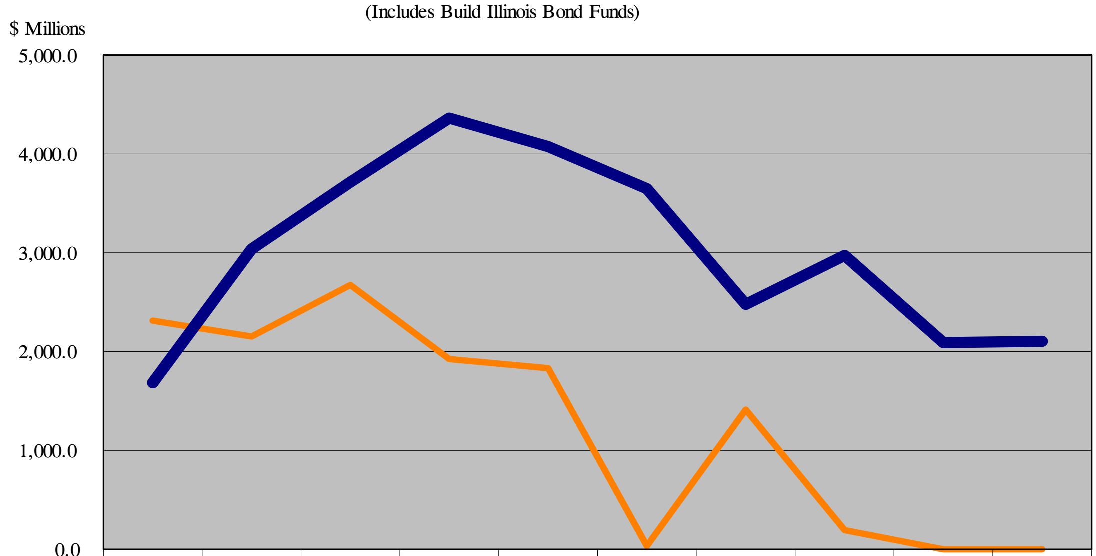
Chart 3 shows the amount of new appropriations versus reappropriations of all bond funds combined for fiscal years 2000 through requested 2009. Reappropriations are unused funds appropriated in a previous fiscal year that are being tapped for use in the current fiscal year.

The total appropriations request for FY 2009 from all bond funds, including the Build Illinois Bond Fund, is $2.103 billion, all of which is for reappropriations. As the chart shows, fiscal years 2000 through 2002 showed new appropriations above the $2 billion mark. In FY 2003 new appropriations dipped below that level. In FY 2005 and FY 2007 new bond fund appropriations were their lowest in decades at $34.5 million and $193 million, respectively. There are no new appropriations from bond funds for FY 2008 or requested for FY 2009.

CHART 3

New Appropriations v. Reappropriations of Combined Bond Funds

(Includes Build Illinois Bond Funds)



	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008*	FY 2009*
Reappropriations	1,685.4	3,038.5	3,714.7	4,361.4	4,074.9	3,647.4	2,478.1	2,972.8	2,091.0	2,103.0
New Appropriations	2,312.5	2,151.8	2,673.0	1,923.8	1,831.6	34.5	1,413.5	192.9	0.0	0.0

Reappropriations New Appropriations

Note: FY 2009 numbers are based on the Governor's Capital Plan Budget.

CURRENT BOND TOPICS

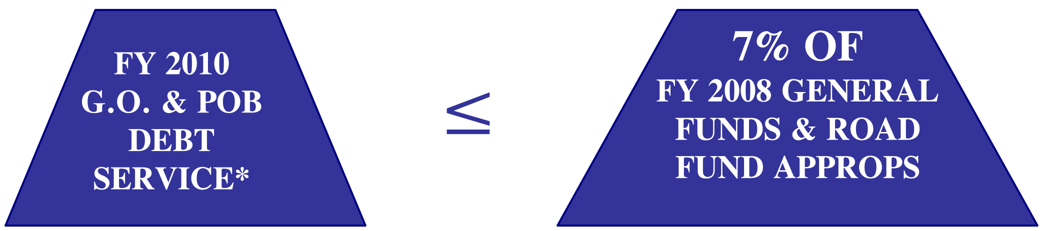
- Debt Responsibility and Transparency
- School Construction Update
- Governor's Lottery Lease Proposal
- $16 Billion Pension Obligation Bond Proposal
- Tobacco Securitization Bond Proposal
- Short-Term Borrowing
- Possible ISFA Purchase of Wrigley Field
- Funding for Northeastern Illinois Mass Transit
- Metropolitan Pier and Exposition Authority Debt Restructuring
- Toll Highway Authority Congestion-Relief Program Update

Debt Responsibility and Transparency

P.A. 93-0839 set limits on debt and created 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.

General Obligation Bond sale 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.



*FY 2010 debt service is based on FY 2009 bond sales.

FY 2008 bond issuance available is based on expected FY 2009 debt service as a percentage of FY 2007 General Funds and Road Fund appropriations. According to the Comptroller, these FY 2007 appropriations (excluding transfers out) equaled $31.2 billion. This puts the 7% cap at a maximum $2.18 billion in debt service for FY 2009. With G.O. debt service (including the 2003 Pension Obligation Bonds) currently at approximately $1.7 billion, there is room for approximately $489 million in additional debt service in FY 2009. As long as interest rates stay at or below 5.5%, the State could sell approximately $5.2 billion in G.O. bonds and stay under the 7% debt cap. This could cover the proposed $3.8 billion in bonds for the Governor's capital budget and a $1.5 billion Tobacco Settlement Securitization bond issuance, however, the authorization level of G.O. bonds would have to be raised to sell these amounts.

A future negative factor to this equation will be the increasing debt service to pay off Pension Obligation Bonds. Debt service to date has been just under $500 million, but beginning FY 2008, as the State begins to pay on the principal of the bonds, debt service will increase and reach over $1 billion annually for the last five years of payment. In addition, if the legislature approves authorization for a proposed Pension Obligation bond issuance of $16 billion, then either the new POBs would have to be excluded from the 7% cap, or the cap will have to be raised. *[See the Pension Obligation Bonds Debt Service schedule on page 53]*

Cost of issuance limitations.

Both the G.O. and Build Illinois bond acts allow for up to 0.5% cost of issuance, including underwriter's fees and discounts. Bond insurance is excluded, and State office operating expenses or employee salaries are not allowed.

Limitations on costs of issuance have been followed by the Office of Management and Budget

Competitive/Negotiated Sales

A minimum of 25% of bond sales must be sold competitively.

The actual percentage of bonds sold competitively in FY 2005, were 32.6% of G.O. and 37.5% of Build Illinois bonds; in FY 2006, 32.4% of G.O. and 30.2% of Build Illinois bonds; and in FY 2007, 25.6% of G.O. bonds. In FY 2008, only one Build Illinois bond sale occurred, which was a competitive sale.

Payment and Maturity

- Equal principal or mandatory redemption amounts.
- 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.
- Maximum 25 year maturities.

The payment and maturity requirements have been followed by the Office of Management and Budget.

NO Capitalized Interest.

No interest has been capitalized since this requirement went into affect.

NO Certificates of Participation

The Office of Management and Budget is not allowed to issue Certificates of Participation unless otherwise authorized by law.

No Certificates of Participation have been issued by the Office of Management and Budget since this Act went into affect.

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.

The Office of Management and Budget would like to remove this restriction.

- Net present value of debt service savings must be 3% or more of the principal amount of the refunding bonds to be issued.

- Refunding principal maturing and redemption amounts due shall be greater than or equal to that of the bonds they are refunding.

Transparency.

The Office of Management and Budget:

- must not contract with anyone who pays a contingent fee to a third party for promoting their selection.
- must wait 2 calendar years before contracting with a party who made a false certification of contingent fees.
- must make detailed cost of issuance summaries available to the public and submit copies of all contracts for costs of issuance to the Commission on Government Forecasting and Accountability.

The Commission is looking into lapses in the receipt of all contracts related to costs of issuance.

"Truth in borrowing" disclosures

Truth in borrowing disclosures are required for every bond issuance and must include:

- principal and interest payments to be paid on the bonds over the full stated term.
- total principal and interest to be made each fiscal year on all other outstanding bonds issued over the full stated terms of those bonds.

All truth in borrowing disclosures have been made by the Office of Management and Budget, although not always in the time required.

The following table illustrates the debt responsibility measures and whether they have been followed.

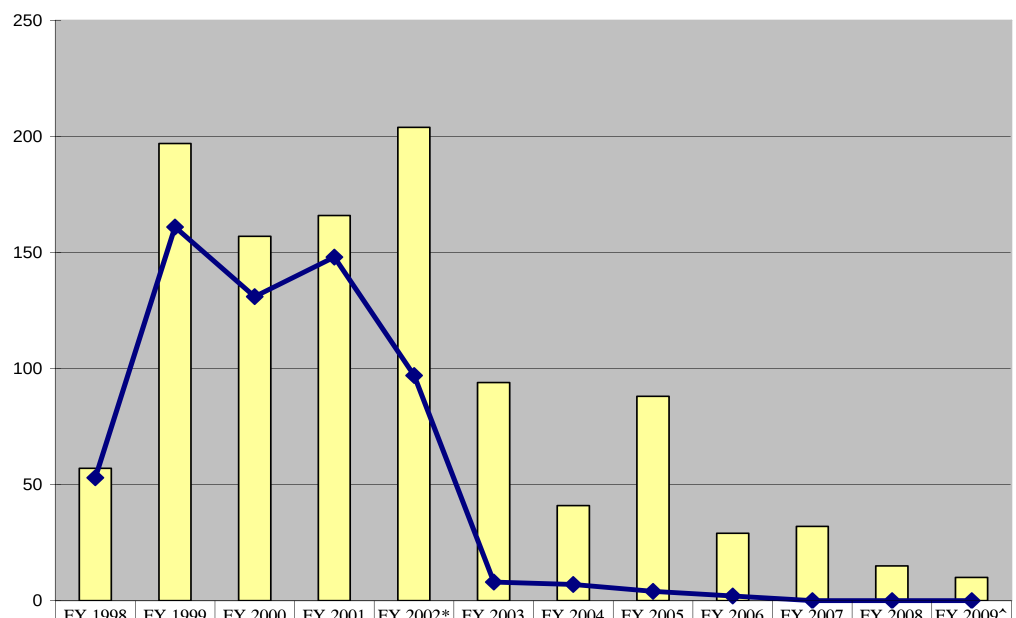
Debt Responsibility Measures						
FY 2005	**Cost of Issuance Limit 0.50%**	**Capitalized Interest**	**Within Maximum Maturity**	**Negotiated v. Competitive**	**Level principal**	**Annual maturity/r mandatory redemption**
G.O. September 2004 $285 million	0.28%	no	√	Competitive	√	√
G.O. November 2004 $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	√	√
G.O. January 2006 $325 million	0.34%	no	√	Negotiated	√	√
Build IL March 2006 $65 million	0.48%	no	√	Competitive	√	√
Build IL June 2006 $150 million	0.43%	no	√	Negotiated	√	√
G.O. June 2006 $274.95 million Refunding	0.36%	no	√	Negotiated	√	√
G.O. June 2006 A&B $300 million	0.35%	no	√	Negotiated	√	√
FY 2007						
G.O. April 2007 $150 million	0.29%	no	√	Competitive	√	√
G.O. June Series A $108 million	0.44%	no	√	Negotiated	√	√
G.O. June Series B* $329 million	0.34%	no	√	Negotiated	√	√
FY 2008						
Build IL July 2007	0.46%	no	√	Competitive	√	√

School Construction Update

Appropriations for projects (in millions)	
FY 1998	$30.0
FY 1999	$260.0
FY 2000	$500.0
FY 2001	$500.0
FY 2002	$740.0
FY 2003	$500.0
FY 2004	$500.0
FY 2005	$0.0
FY 2006	$18.0
FY 2007	$0.0
FY 2008	$0.0
FY 2009	$583.0

The School Construction Grant Program received basically no new appropriations since FY 2004. The Governor had requested, in the Capital Plan Budget, a new appropriation for FY 2009 of $583 million. This appropriation would be part of his three-year $1.7 billion School Construction plan, which would appropriate $583 million a year to address classroom shortages and aging facilities. Of the $583 million in FY 2009, $149 million would go to cover 24 school district projects which have already been approved for funding. The remaining $434 million would pick up with FY 2003 applications that meet program requirements. The Governor plans to pay-as-you-go for this program through the Illinois Works Fund from the lease of the Illinois Lottery. At this time, no funding for the School Construction program has been approved. If bonds were to be sold, authorization would have to be increased.

School Construction Projects



	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002*	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009^
Applications Received	57	197	157	166	204	94	41	88	29	32	15	10
Applications Entitled	53	161	131	148	97	8	7	4	2	0	0	0

[1.] *"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)*

[2]*. FY 2009 is to date as of March 26, 2008.*

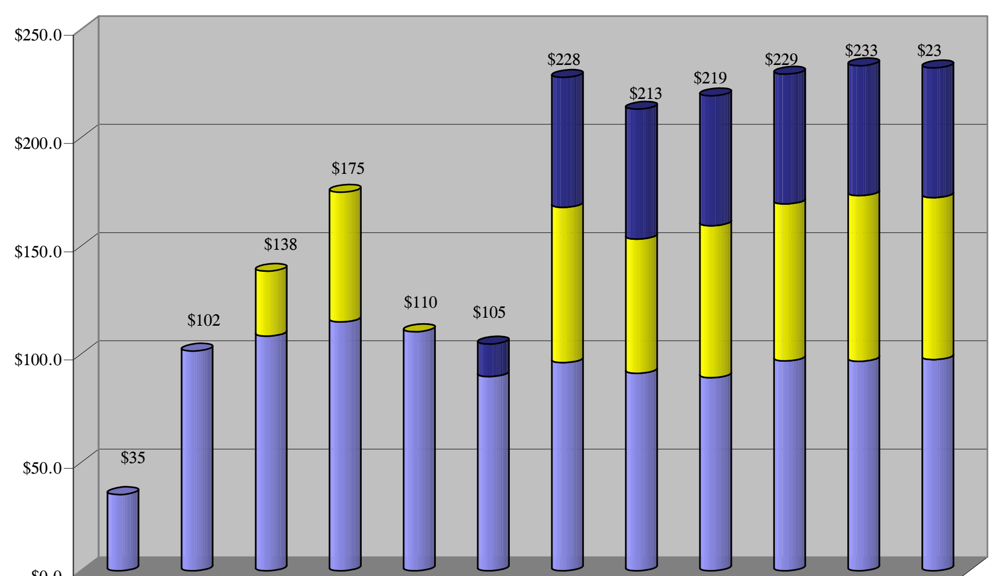
[3.] *There were 191 applications entitled in 2002, but approximately ½ were not able to secure their local share and were moved into the 2003/2004 cycles.*

[4.] *FY 2003 through FY 2009 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 entitled projects remain on the list and have not received funding. Traditionally, the School Construction Fund receives a portion of general obligation bond sale proceeds, which are sold as needed for grants to schools for the approved construction projects.

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 1/7th of the 7% Telecommunications Excise tax from the School Reform Act.

School Infrastructure Fund Revenues



	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002*	FY 2003*	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008^	FY 2009^
Cigarette Tax						$15.0	$60.0	$60.0	$60.0	$60.0	$60.0	$60.0
Liquor Tax/GRF			$30.0	$60.0	$0.0	$0.0	$71.8	$62.0	$70.3	$72.5	$76.6	$74.8
Telecom Tax	$35.2	$101.5	$108.4	$114.9	$110.4	$89.7	$96.1	$91.2	$89.1	$96.9	$96.7	$97.5

^FY 2008 and FY 2009 amounts are CGFA estimates based on GOMB's expected debt service.
**The liquor tax transfer was suspended for FY 2002 and FY 2003 as part of the budget agreement.*

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. Telecom revenues from the 1% portion fell to under $100 million each year from FY 2003 through FY 2007. Whenever this amount falls under the 1999 level of $101 million, GRF backfills the shortage amount, which it did in FY 2004 by $11.8 million, FY 2005 by $2 million, FY 2006 by $10.3 million and FY 2007 by $12.5 million. Telecom revenues for FY 2008 directed to the Fund are expected to be around $96.7 million (CGFA estimate).

The Comptroller has already transferred an additional $4.6 million from GRF into the School Infrastructure Fund (through March 26, 2008) for FY 2008, and according to the Capital Budget, a total of $33.3 million will be required. Additional transfers from the General Revenue Fund are allowed since School Construction bonds are general obligations of the State and would normally be paid from the General Revenue Fund. School Construction bonds are "double barrel" bonds because they are G.O. bonds that are funded from specific revenue streams. In the past, each time the program was expanded an additional revenue stream was added to pay for the increases in funding.

FY 2007 revenues were $229 million and debt service reached almost $241 million. Revenues and transfers to the School Infrastructure Fund will need to reach $233.3 million in FY 2008 to be able to cover the expected debt service. 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.

Debt service on School Construction G.O. Bonds
($ in Millions)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008†	2009†
$6.7	$21.2	$49.4	$73.2	$127.5	$154.6	$196.7	$225.1	$240.6	$233.3	$232.3

†*Office of Management and Budget estimate.*

In addition to the above-mentioned school construction program, the Governor has also requested appropriations for $150 million to be spent over three years for maintenance projects and $30 million over three years for Pre-K programs for school districts and non-profit organizations. Both programs would again be pay-as-you-go from Lottery lease revenues.

State school construction grants of $3.1 billion to date have benefited 502 school districts to aid in the building of 265 new schools and 3,177 renovations/additions. The Capital Development Board's 2007 Capital Needs Assessment shows that 450 elementary, secondary and unit school districts have the following $8.2 billion worth of needs:

- Over $1.9 billion is needed to build 71 school buildings;
- $5.2 billion is needed for overall general repair and remodeling, of which $2.9 billion is needed for Health/Life Safety needs;
- Over $1 billion is needed for 142 building additions;
- To ease overcrowding, districts are using 724 temporary classrooms;
- 45 school districts are considering consolidation;
- 819 Pre-Kindergarten classrooms are needed; and
- 818 Kindergarten classrooms are needed.

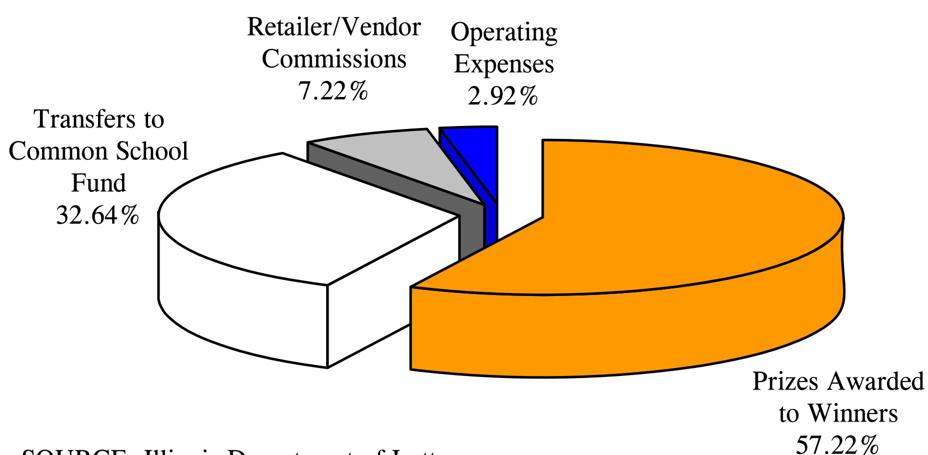
Governor's Lottery Lease Proposal

The Governor is proposing a 50-year lease of 80% of the lottery, in exchange for a $10-$12 billion payment. Of this payment, $7 billion would be used to partially fund the Illinois Works program. The remaining $3-$5 billion would be deposited into an investment fund that would be used, in conjunction with the revenue from the 20% of the lottery that the State would retain, to assure payments of at least $600 million per year to fund education over this time period for education.

If 80% of the lottery being leased would bring in $10-$12 billion, the total value of the lottery would be approximately $12.5-$15 billion. This is greater than the amount indicated by the Governor's office in 2006, when they expected to receive $10 billion for the sale of the whole lottery. It is unclear as to why the value has increased. No valuation report or analysis has been made available to the Commission; therefore, we cannot verify the amounts claimed. The actual price paid would largely depend upon what was allowed by the concessionary agreement. Factors such as marketing flexibility, allowable debt levels, game expansion, the interest rate environment, other potential lotteries for sale, and allowable changes in payout ratios would greatly affect how much an investor group would be willing to pay.

The Illinois State Lottery began operation in 1975. The system generates revenue via ticket sales, agent fees, and interest-earning accounts. Following the payment of prizes, agent commissions, and administrative costs, net lottery receipts are transferred into the Common School Fund. Lottery sales totaled $1.984 billion in FY 2007. This figure is basically flat from the FY 2006 amount of $1.985 billion.

TYPICAL LOTTERY SALES DISTRIBUTION

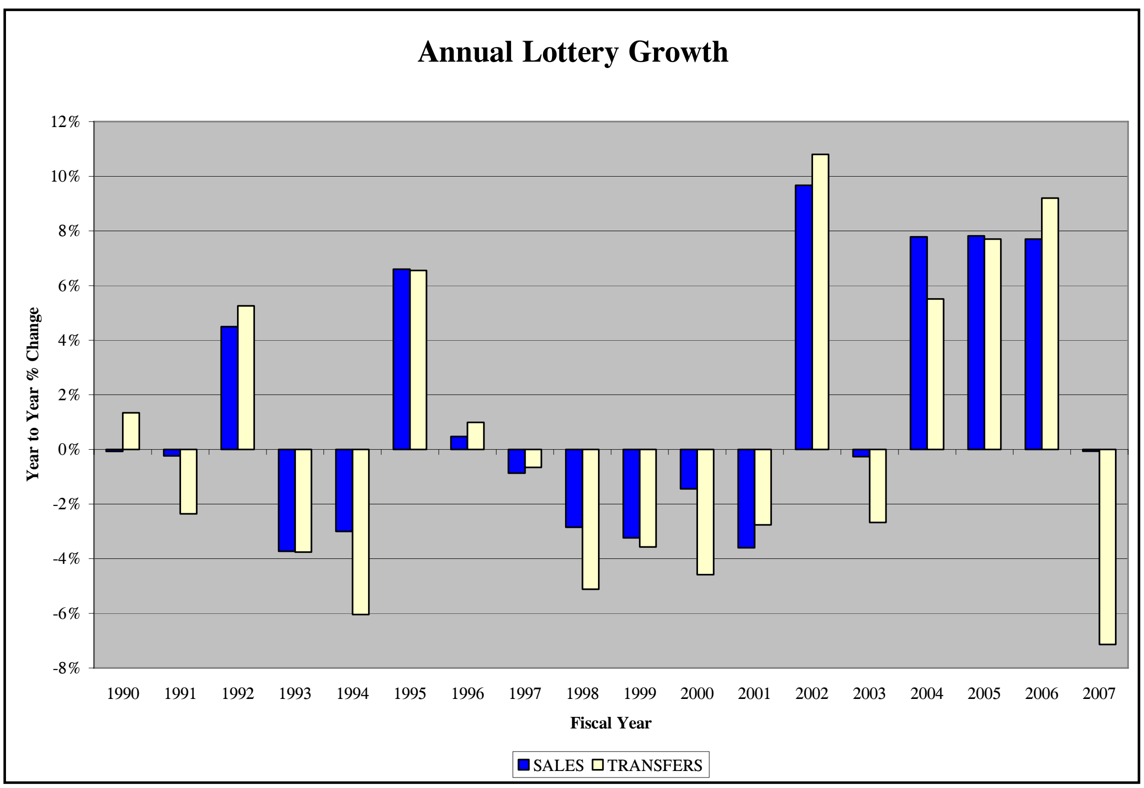


SOURCE: Illinois Department of Lottery

From this sum, 31.4% or $622.6 million was transferred into the Common School Fund, a 7.1% decrease from the FY 2006 transfer amount of $670.5 million. Transfers into the Common School Fund in FY 2008 have been estimated between $657 million (GOMB) and $675 million (CGFA). Even though lottery sales were flat from FY 2006 to FY 2007, transfers to the Common School Fund declined 7.1%. This was due to the timing of the transfers.

Since 1990, year-to-year changes in the growth of total lottery revenue have varied, with growth rates ranging from –3.73% to 9.67%. These results have resulted in an average growth rate of 1.40% and a median growth rate of –0.15%. It must be noted that during this period, eleven out of the eighteen years had negative growth rates. The overall positive growth rate is due to four years of high growth in FY 2002, FY 2004, FY 2005 and FY 2006. Though recent years have shown strong growth, from FY 1990 to FY 2003, lottery sales only averaged growth of only 0.14%. As such, continued strong long-term growth cannot be assumed.

In terms of lottery transfers, a similar trend occurs of numerous down years offset by some very good years recently. Since 1990, lottery transfers have averaged growth of 0.5% per year and median growth of -1.5%. Lottery transfers have varied more than sales. The best year of growth was FY 2002 with growth of 10.8%. The worst year was FY 2007 at -7.1%.



$16 Billion Pension Obligation Bond Proposal

The Governor is proposing a $16 billion Pension Obligation Bond sale in FY 2009 and would like the standards for selling the POBs to be relaxed so that debt service payments could be structured differently from the required level principal payment. Total debt service to be paid over the 30-year life of the bonds could range from $30 billion (fixed principal payments) to $38 billion (GOMB estimate with specifically structured debt service) based on GOMB's interest rate assumption of 5.9%.

Pension Obligation Bonds are sold as taxable bonds because proceeds will be invested. POBs sold as general obligations of the State are more attractive to bond buyers who know that the G.O. pledge means the debt service will be appropriated and the bonds will be paid by the State. If the legislature approves authorization for an additional Pension Obligation bond issuance of $16 billion, then either the new POBs would have to be excluded from the 7% debt cap, or the cap will have to be raised. According to Fitch, the sale of these bonds would increase Illinois' tax-supported debt level from 4.4% of personal income to 7.5%.

All states must begin reporting their other post-employment and health care benefit (OPEB) unfunded liabilities to the Governmental Accounting Standards Board. In April 2008, Illinois reported its OPEB liability at $24.2 billion. According to the Bond Buyer ("Illinois OPEB Smaller But Still Daunting", April 22, 2008), 40 states have reported their OPEB liabilities which range from North Dakota's $52 million to New Jersey's $58 billion. Other large OPEB's include New York's and California's in the $47-$48 billion range. The average OPEB liability for states is $9-$10 billion.

GASB 45 requires reporting of the unfunded liabilities, but at this time, does not require action to be taken. Fitch Ratings has stated that, "if an issuer's GASB 45 compliance shows a large and growing OPEB liability and the entity chooses to defer action, Fitch's assessment of management would be negative, which could have ratings implications". Both Fitch and Standard and Poor's have reported that governments must address their OPEB unfunded liabilities because healthcare costs will continue to increase in future years, putting pressure on government funds, which, in turn, could affect a State's credit and credit rating. Bonding to help fund these OPEB's is an option, but would move what is considered a "soft debt" of liabilities that are paid at some time in the future, to a "hard debt" of bond debt service that requires specific payments annually. Even in their current states of soft debt, rating agencies do evaluate the effect of pension and other post-employment and health care benefits on each states' budget, and will use this analysis when reviewing each states' credit rating. [Sources: Old Promises, Emerging Bills: Considering OPEB in Public Finance Ratings, Fitch Ratings, March 22, 2007. Market Volatility Could Shake Up State Pension Funding Stability, Standard & Poor's, February 20, 2008.]

Tobacco Securitization Bond Proposal

Another bonding plan proposed by the Governor would be to sell Tobacco Securitization bonds, up to $500 million in taxable tobacco revenue bonds and up to $1 billion in tax-exempt bonds, to transfer the risks of receiving the Master Settlement Agreement (MSA) payments to bond holders. The proposal would be to securitize only a portion of the State's payments, between $1.2-$1.5 billion, using $120 million of MSA payments annually to pay debt service. The proceeds from the securitization would pay for the Governor's Protecting Illinois Families Program, which is a combination of tax cuts for families (doubling the Federal economic stimulus payments for children) and an Illinois business tax cut.

In Illinois, after the tobacco settlement money is received, it is distributed to various departments throughout the State which, in turn, fund a wide range of areas. According to the U.S. Government Accountability Office, the MSA has no requirement on how states spend their payments. State programs that have benefited from tobacco settlement funds include programs for the elderly, tobacco prevention/control, medical research, and venture-tech. The majority of tobacco settlement funds in Illinois are used for the Medicaid drug program where 50% of the amount is covered by the federal government through federal matching funds. The funds also have been used to finance the earned income tax credit. A list of where the tobacco settlement money has been distributed between FY 2000 and FY 2006 (by agency) is provided in the Commission's report, Illinois' Cigarette Tax, Tobacco Products Tax, and Tobacco Settlement Update (July 2006).

Under the MSA, each state receives a share of payments based on a fixed percentage agreed upon in the MSA. The percentage was based loosely on the smoking-related health care costs for each state. The total payments were originally estimated at over $200 billion paid out between 1999 and 2025. However, the total payment fluctuates annually and is based on a formula that considers participating manufacturers' annual U.S. shipments of tobacco as compared with those of 1997. Other factors also can affect this payment amount, such as inflation and the gain in market share by cigarette manufacturers that are not participating in the agreement. According to the Bond Buyer, "After the 2006 payments were tallied, states received MSA payments totaling $5.7 billion, compared with the $6.5 billion they would have received had tobacco companies not taken the (MSA) adjustments." This means that states received only 87.7% of what was originally expected; Illinois received only 83.6% of anticipated settlement monies in FY 2006. In 2007, Illinois received $285 million, which was 87.4% of the scheduled payment. [See the payment schedule on the following page]

Illinois did pass legislation in 2003 to sell tobacco securitization bonds. Illinois Public Act 92-0596 authorized $750.0 million in General Obligation "Tobacco Securitization" bonds to be issued in FY 2003 only, with half the proceeds going to the Budget Stabilization Fund, and the other half to the General Revenue Fund. A G.O. tobacco bond is a double-barrel bond using tobacco settlement payments to pay for debt service backed by the State's general obligation pledge, which would be attractive for investors

ILLINOIS' Share of Tobacco Settlement Payments as of February 2008						
FY	Scheduled Payment	Estimated Total Payment	% of Scheduled Payment	Estimated Amount to Escrow	Actual Payment Received	% of Scheduled Payment
					actual	
2000	$410.2 *	$377.0	**91.9%**	$27.5	**$349.5**	85.2%
2001	322.2	$289.1	**89.7%**	$21.1	**$268.0**	83.2%
2002	386.9	$336.8	**87.1%**	$24.6	**$312.3**	80.7%
2003	390.6	$341.5	**87.4%**	$22.5	**$319.0** **	81.7%
2004	326.0	$292.3	**89.6%**	$22.5	**$269.8**	82.7%
2005	326.0	$296.6	**91.0%**	$22.5	**$274.1**	84.1%
2006	326.0	$272.6	**83.6%**	$0.0	**$272.6**	83.6%
2007	326.0	$285.0	**87.4%**	$0.0	**$285.0**	87.4%
					estimated	
2008	332.5			$0.0	$289.9	87.2%
2009	332.5			$0.0	$288.3	86.7%
2010	332.5			$0.0	$286.6	86.2%
2011	332.5			$0.0	$285.0	85.7%
2012	332.5			$0.0	$283.3	85.2%
2013	332.5			$0.0	$281.6	84.7%
2014	332.5			$0.0	$280.0	84.2%
2015	332.5			$0.0	$278.3	83.7%
2016	332.5			$0.0	$276.6	83.2%
2017	332.5			$0.0	$275.0	82.7%
2018	372.5			$0.0	$306.2	82.2%
2019	372.5			$0.0	$304.3	81.7%
2020	372.5			$0.0	$302.5	81.2%
2021	372.5			$0.0	$300.6	80.7%
2022	372.5			$0.0	$298.7	80.2%
2023	372.5			$0.0	$296.9	79.7%
2024	372.5			$0.0	$295.0	79.2%
2025	372.5			$0.0	$293.2	78.7%
TOTAL	$9,118.9				$7,572.3	83.0%

* Year 2000 annual pament of $410.1 M includes 1998 initial payment of $111.7 million.
FY 2000 - FY 2003 also include initial payments.

** The FY 2003 total of $319 M figure does not include $88 M that was transferred from an escrow account to the General Revenue Fund. The actual amount in FY 2003 was $407 M.

Note: In FY 2003 - FY 2005, a total of $67.5 million ($22.5 per year) was set aside to pay lawyer fees. In FY 2006 and thereafter, similar adjustments are not anticipated.

while getting the State a low interest rate. The State did not issue tobacco securitization bonds in FY 2003, but there has continued to be some interest over the years in the legislature, and now the administration, to allow some type of tobacco securitization, whether a double-barreled G.O. bond or a true securitization of tobacco settlement revenues.

Since 1999, state and local governments have sold over $53 billion of tobacco bonds to securitize their future tobacco settlement payments, some to help with budget gaps, health programs, capital projects, and more recently, pension programs (West Virginia, June 2007). The way most states have structured tobacco settlement bonds is by setting up a special-purpose entity designed to be bankruptcy proof. The state then transfers all or a portion of settlement payments to the entity. The entity then issues the bonds, pledges a portion of each annual settlement payment for debt service, and assumes all of the risk. Bonding allows the state to receive its long-term income streams now instead of over a long period of time. However, this process is costly as the state loses value on the dollar due to minimizing risk and by paying interest over the years to pay it off. When issuing true securitization bonds, a state has to give up a percentage of the settlement proceeds to the entity and give a discount to bond buyers.

Litigation Issues:

There have been several court cases related to the Tobacco Settlement Masters Agreement and litigation against tobacco companies, all of which have at times affected the tobacco bond market. The Price v. Philip Morris case, in Illinois, where plaintiffs alleged that light cigarettes were a fraud, went all the way to the U.S. Supreme Court, where the justices affirmed the Illinois Supreme Court ruling that since the Federal Trade Commission had allowed the “light” and “low tar” labeling, that the tobacco companies hadn’t perpetrated fraud. But this final judgment didn’t occur until November 2006, and not before some damage had been done to the tobacco companies and tobacco securitization bonds. The original trial judge had initially required Philip Morris to pay a $12 billion appeal bond while waiting on the ruling of the $10.1 billion case. The April 2003 ruling, known as the Miles Decision, started a domino effect that is still being played out in the bond market. Immediately, Philip Morris stated that the appeal bond amount was so high, they would not be able to make their Master Settlement Agreement payments of $2.5 billion on April 15 (2003) to all of the states, and that they may have to declare bankruptcy. In September 2003, the Illinois Supreme Court reinstated the Judge’s lowered appeal bond of $6.8 billion, and stated it would hear this case immediately without it going through an intermediate appellate court review. Downgrades of Philip Morris credit ratings from one to five notches occurred from all three ratings agencies within weeks of the Miles decision. Fitch also put a negative watch on the debt for R.J. Reynolds Tobacco Company since they faced a similar lawsuit in Madison County.

Another lawsuit was brought as a class action law suit by millions of smokers, alleging they were deceived into thinking that “light” cigarettes were healthier. In April 2008, the U.S. Appeals Court threw out the class action case, saying that smokers would have to individually sue their respective tobacco companies and prove that they had selected the product for perceived health benefits. The plaintiffs’ attorney may go to the Supreme Court with the case.

An even more damaging lawsuit was brought in 2002 by a non-participating tobacco manufacturer named Freedom Holdings which sued New York on the legality of statutes requiring manufacturers who did not participate in the Master Settlement Agreement to pay into an escrow account the amount they would have paid if they had participated, to guard against possible future lawsuits. The anti-trust lawsuit charges that this forces non-participants to keep their prices high to allow large participant companies to keep their market share. In January the appeals court overturned a lower court's decision to dismiss the case. In May 2005, the decision by the U.S. Court of Appeals denied a preliminary injunction against the enforcement of the Masters Settlement Agreement, and determined that the MSA does not restrict competition. If New York had lost the case, the state statute would have become unenforceable and the cash flow supporting the state's municipal tobacco bonds would be reduced. If non-participants were not required to pay, they could sell tobacco products at lower prices and cut into MSA participants' market shares. Provisions in the MSA allow participant manufacturers to decrease their payments to an amount equal to 3 times the percent decrease in market share after the first 2%. Any states sued and found to have an unenforceable escrow statute would get decreased MSA payments, which would hurt their tobacco revenue streams and tobacco bonds. In March 2004, Moody's downgraded $1.2 billion of New York City's tobacco debt to Baa2. Fitch Ratings had stated a policy to hold ratings actions until after the appeals process is complete, and both Standard & Poor's and Fitch have said they are monitoring all court cases.

Other Issues:
Multiple downgrades by all three ratings agencies and being placed on negative watch lists left tobacco securitization bonds at much lower ratings than before the Miles Decision. Standard & Poor's cited that their August 2003 round of downgrades were based on "adverse litigation", decline in cigarette market and consumption, "the expected increase in state excise taxes", and the "continued growth of the deep discount manufacturers". Fitch and Moody's have Altria (Philip Morris' parent company), Philip Morris, and R.J. Reynolds and their subsidiaries on negative watch for possible further downgrades. With consumer and anti-trust court cases against the tobacco manufacturers there is more risk in whether the tobacco companies will have funds to pay the Master Settlement Agreement payments to the States who are using these payments for tobacco bond debt service.

Some tobacco bond issuers (New York City, New York counties, Iowa and the District of Columbia) have pledged to fund a "trapping account" to give more security to their tobacco bonds. If the credit ratings of one or more tobacco companies accounting for a certain percentage of the annual Master Settlement Agreement payments went below investment grade, these governments would divert excess tobacco settlement funds, after paying debt service on the bonds, to a trapping account as an extra reserve for future debt service on the bonds. Now states will have to try to make sure their escrow statutes are enforceable, too. And a new guideline by the Governmental Accounting Standards Board (GASB) is requiring governments to add into their financial statements any tobacco debt they have sold through off-balance sheet entities and recognize their annual tobacco company payments on an accrual basis as opposed to a cash basis, to make sure that there is a consistent accounting treatment of tobacco bonds and tobacco payments.

The many court cases and multiple downgrades on tobacco companies and tobacco bonds caused a self-imposed moratorium by municipal issuers on tobacco bond issuance from early 2003 through May 2005. On May 13, 2005, Virginia became the first state to return to the tobacco bond market in two years. In 2006, some tobacco companies withheld a combined total of $696 million of their annual MSA payments saying they overpaid in 2004, and in 2007, these companies withheld $755 million for overpayment in 2003. If participating tobacco companies can argue that they've lost at least 2% of their market share to non-participating companies due to the MSA, then they can try to reduce the amount of their payments to states. This money was placed in an escrow account until court cases have been concluded.

An evaluation of market share losses was prepared by The Brattle Group, which has certified that the MSA was responsible for loss of profits in 2003 and 2004. State governments have filed lawsuits to try to get this money, but all courts, but one, have determined that the cases must be settled by arbitration. Arbitration hasn't occurred yet, since many of these decisions are on appeal, and states and tobacco companies can not decide on how the arbitration should proceed, state-by-state or all at once. If these funds do not go to the states, then there could be issues in many states with their ability to pay the debt service on their tobacco bonds. In April of 2008, Standard and Poor's put several series of tobacco bonds on their negative watch list, based on the decline in domestic tobacco shipment volume by 5% in 2007, reported by Management Science Associates, Inc.

Tobacco bonds are basically rated at junk status, with low yields and uncertain risks. But they remain popular in the current climate and the base of investors has grown over the past years. Many states try to mitigate the risk in the structure of the bonds, quicker pay offs, and conservative estimates on revenue streams of tobacco payments. Many states have even refunded their tobacco bonds. Of the managed tobacco deals, Bear Stearns has the most underwritten, $24.1 billion, while Citigroup Investment Banking is second with $12.7 billion underwritten. With the current problems with the market, the takeover of Bear Stearns to avoid bankruptcy, downgrades of bond insurers, the crash of the auction rate market and the increases of interest payments for variable rate bonds, the other risks already inherent in tobacco bond deals will make issuance a more delicate situation.

Short-Term Borrowing

In April 2008, the State plans to sell General Obligation Certificates in the amount of \$1.2 billion to supplement the Hospital Provider Assessment Program and other health care funds. The Certificates would be paid off in June 2008 with an estimated \$3.5 million in debt service. Federal reimbursements would give the State an additional \$465 million for hospitals, \$80 for the General Revenue Fund and \$50 million to other State healthcare funds. This would be the last year of the recently approved three-year program which has allowed the State to capture additional Federal Medicaid reimbursements.

The State sold \$1.2 billion of General Obligation Certificates in September 2007. The borrowing provided liquidity to the Hospital Provider Fund to make supplemental payments to certain public and non-public hospitals within Illinois as part of the Hospital Provider Assessment Program. The State uses funds raised from this tax to leverage \$600 million in additional funds from the federal government, of which \$470 million will go back to hospitals, while the additional \$130 million will be used by the State for other Medicaid services. Upon making the supplemental payments from the Hospital Provider Fund, the State will deposit Federal Medicaid Reimbursements and Hospital Assessment Tax Receipts into the Fund. Those receipts will pay off the short-term borrowing and the residual balance will be transferred to the General Revenue Fund and other healthcare related Funds. The Certificates matured November 9, 2007, when the State made a \$1.2 billion principal payment and a \$6.2 million interest payment.

The State also competitively sold \$900 million of General Obligation Certificates in February of 2007 for the Hospital Provider Assessment Tax Program. Previous Short-term borrowing occurred in March and November of 2005, for \$765 million and \$1 billion, respectively, to be spent on Medicaid bills. 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.

A history of the State's short-term borrowing is shown on the following page.

HISTORY OF SHORT TERM BORROWING			
Date Issued	**Amount (millions)**	**Purpose**	**Date Retired**
June-July 1983	$200	To maintain adequate cash balances caused by revenue shortfalls	May 1984
February 1987	$100	To improve the cash position of the General Funds	February 1988*
August 1991	$185	For cash flow purposes	June 1992
February 1992	$500	To pay Medicaid providers through the Medicaid Developmentally Disabled Provider Participation Fee, Medicaid Long-Term Care Provider Participation Fee, and Hospital Services Trust Funds	October 1992*
August 1992	$600	To improve the payment cycle to Medicaid service providers	May 1993
October 1992	$300	For cash flow purposes	June 1993
August 1993	$900	For cash flow to pay Medicaid service providers through the Hospital Provider Fund	June 1994
August 1994	$687	To pay Medicaid service providers through the Long-Term Care and Hospital Provider Funds	June 1995
August 1995	$500	To GRF for cash flow and payment to Medicaid service providers through the Long-Term Care Provider Fund and Hospital Provider Fund	June 1996
July 2002	$1,000	For Cash Flow; payments for medical assistance; to medical providers for long-term care; to pay Income Tax Refunds	June 2003
May 2003	$1,500	For Cash Flow; payments for medical assistance; to medical providers for long-term care; for Income Tax Refunds; for State Aid to K-12 school districts	May 2004*
June 2004	$850	For Medicaid service providers and the Children's Health Insurance Program	October 2004*
March 2005	$765	For Cash Flow; for payments to Medicaid Service Providers through the Hospital Provider Fund.	June 2005
November 2005	$1,000	For Cash Flow; for payments for Medicaid and the Children's Health Insurance Program.	June 2006
February 2007	$900	For the Hospital Provider Assessment Tax Program; health care related funds; General Revenue Fund liquidity.	June 2007
September 2007	$1,200	For the Hospital Provider Assessment Tax Program; health care related funds; General Revenue Fund liquidity.	November 2007
April 2008	$1,200	For the Hospital Provider Assessment Tax Program; health care related funds; General Revenue Fund liquidity.	June 2008
Source: Office of Management & Budget *Across fiscal year borrowing			

Possible ISFA Purchase of Wrigley Field

The Illinois Sports Facilities Authority (ISFA) is reviewing the possible purchase of Wrigley Field to renovate it, as a way to entice future buyers of the Cubs to stay in Chicago. The city of Chicago would have to relax the Field's landmark designation to allow parts of the Field to be torn down and rebuilt, and for possible naming rights to be sold. One plan, originally suggested by ISFA Chairman and Former Governor Jim Thompson, would require the city and state to give up 30 years of sales tax TIF revenues at Wrigley Field and its new building(s)—on such things as tickets and concessions. Under this plan, bonds would be financed by increased stadium revenues and the sales tax increment being generated at Wrigley Field, and would not be debt of the State. As part of the deal, the owner of the Cubs would be held to a 30-year lease and a portion of revenues would be paid toward debt service.

Currently the ISFA is reviewing the possible costs of renovations, although there is no definitive study on what all needs to be done to renovate Wrigley Field. At this time, the ISFA has offered a bid and the Tribune Company has offered a counter proposal. The ISFA is planning on its own counter proposal. But Thompson says that if he is unable to negotiate a deal that would be politically feasible, then the deal will fall through.

While this process is being considered, the Government Accountability Office issued a report [Tax Policy: Tax-Exempt Status of Certain Bonds Merits Reconsideration, and Apparent Noncompliance with Issuance Cost Limitations Should Be Addressed, February 2008] to the U.S. Senate Committee on Finance, recommending that Congress reconsider the use of tax-exempt bonds to finance privately used facilities, such as stadiums and hotels, due to the increasing loss of federal income tax revenues. "In recent years, the dollar amount of long-term tax-exempt bonds issued annually has been at historically high levels, and the tax exemption (on interest earned by investors) is one of the largest federal tax expenditures". The GAO has estimated the loss to the Federal Government on tax-exempt interest of governmental bonds in 2007 to be $25.4 billion, with an additional $11.6 billion for private activity bonds. The report notes that restrictions on private activity bonds (exclusion from financing of sports stadiums, hotels and private golf courses) has moved issuance of bonds for private uses to state and local governments or bonding entities given the authority to issue tax-exempt bonds and to enter into management agreements with third parties who use the bond-financed property. While the reason used to allow many of these projects to be financed is that they will be good for economic development, the GAO states that it is not always clear whether this is the case, and whether the loss to federal tax payers is worth it.

At this time, the ISFA does not have the authority to purchase Wrigley Field or to sell bonds for the project, and would need the General Assembly's approval. The Authority has sold bonds in the past for Comiskey Park ($150 million) and the Soldier Field Renovation ($399 million). Those bonds are paid for by local and State hotel taxes, but are not an obligation of the State.

The Illinois Sports Facilities Authority (ISFA) was created in 1987 to fund and build new and lasting infrastructure and make other improvements as necessary for the retention of professional sports teams, which would generate economic activity. The ISFA entered into an agreement with the Chicago White Sox to build the new Comiskey Park. In March of 1989, the Authority issued $150 million in bonds to enable construction of the new park, which was used during the 1991 ball season. With Public Act 91-935, the General Assembly allowed the Authority to enter into agreements with the Chicago Park District and the Chicago Bears to renovate Soldier Field and pay for related lake front improvements projects. As part of the agreement, the Authority sold $399 million of bonds in October of 2001 to provide financial assistance to another government facility, the Chicago Park District. The Comiskey Park bonds will be paid off in 2010, allowing the money used for the debt service on those bonds to be used for the debt service on the Soldier Field bonds.

The ISFA receives revenues from: the imposition of a tax of 2% of 98% of the gross rental receipts of hotel operators in Chicago; $5 million annually from the Local Government Distributive Fund; and annual transfers from the State's Hotel Operators' Occupation Tax—(a) $5 million into a Subsidy Account, and (b) amounts put into an Advance Account [$28 million in FY 2008], which is paid back every year. The Advance amount is based on the request from the Authority, the maximum of which comes from the formula of $22.179 million beginning in FY 2002 to be increased annually by 5.615% until the year 2032. The ISFA also receives revenues from ticket fees and media fees as a part of a revenue sharing agreement with the Chicago White Sox; rent payments from the Chicago White Sox; and interest payments from investment of funds.

Funding for Northeastern Illinois Mass Transit

The first State temporary funding provided to the Regional Transportation Authority and the service boards it governs—the Chicago Transportation Authority, Metra rail, and Pace suburban bus service—was in September 2007. The State annually appropriates subsidies to the service boards for discount fares and paratransit operations, which is paid as a reimbursement for expenditures. To help with the transit funding crisis, the State paid upfront the total fiscal year appropriation to the RTA of $91 million for FY 2008.

The November RTA bail out was a grant of $27 million from the Transportation Bond Series B Fund. There was an existing reappropriation under the Illinois Department of Transportation in the FY 2008 budget [Article 505 Section 195] that left approximately $27 million unused. The Transportation Bond Series B Fund, which is used for mass transit and aviation appropriations, did not have the full $27 million available, therefore, bond funds were reallocated to the Transportation Bond Series B Fund from the June 2007 bond sale. The table below shows the fund amounts reallocated to the Transportation Bond Series B Fund. A combined $22.4 million came from the Capital Development Fund, the Transportation Bond Series A Fund, and the Coal Development Fund. The remaining $4.6 million came from the Transportation Bond Series B Fund.

The additional state capital funds freed up allocated federal capital money that can be used at the CTA and Pace for operational needs related to preventative maintenance and paratransit operations. This has been allowed in the past and the State received Federal approval to do this again.

Reallocation of G.O. Bond Series June 2007 proceeds to Transportation Bond Series B Fund (554)

Fund #	Fund Name	Bond Proceeds	Premium	Total
0141	Capital Development Fund	$4,680,000.00	$143,787.28	**$4,823,787.28**
0553	Transportation Bond Series A	$7,200,000.00	$221,211.20	**$7,421,211.20**
0653	Coal Development Fund	$9,900,000.00	$304,165.40	**$10,204,165.40**
TOTAL		$21,780,000.00	$669,163.88	**$22,449,163.88**

Note: Reallocation is allowed by statute 30 ILCS 330/12(h).

The final solution to the funding crisis for the RTA and its service boards came January 18, 2008 in Public Act 95-0708. This law allowed the sales tax imposed by the RTA to be increased by ¼ percent in Cook and the collar counties expected to raise $400 million with an additional $70 million State match, while also allowing the City of Chicago to impose a real estate transfer tax for additional funding to the CTA, expected to generate $100 million annually. The CTA is preparing to sell $2 billion in pension and retiree health care bonds, and will also issue the remaining Illinois FIRST capital project authorization of $250 million, which is secured by federal capital grants.

Metropolitan Pier & Exposition Authority (MPEA) Debt Restructuring

McCormick Place Expansion Bonds Back-up Maximum (in millions)		
	Current	Proposed
FY 2008	$126.0	$126.0
FY 2009	$132.0	$132.0
FY 2010	$139.0	$139.0
FY 2011	$146.0	$146.0
FY 2012	$153.0	$153.0
FY 2013	$161.0	$161.0
FY 2014	$170.0	$170.0
FY 2015	$179.0	$179.0
FY 2016	$189.0	$189.0
FY 2017	$199.0	$199.0
FY 2018	$210.0	$210.0
FY 2019	$221.0	$221.0
FY 2020	$233.0	$233.0
FY 2021	$246.0	$246.0
FY 2022	$260.0	$260.0
FY 2023	$275.0	$275.0
FY 2024	$275.0	$275.0
FY 2025	$275.0	$275.0
FY 2026	$275.0	**$287.0**
FY 2027	$275.0	**$303.0**
FY 2028	$275.0	**$320.0**
FY 2029	$275.0	**$337.0**
FY 2030-2042	$275.0	**$350.0**
FY 2042-2048	--------	**$350.0**

There are two categories of bonds sold by the MPEA. The "Dedicated State Tax Revenue" bonds get transfers from the Build Illinois Fund for annual debt service (the Build Illinois Fund receives portions of the State's sales tax, hotel tax and vehicle use tax). "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 to pay debt service on the Expansion Bonds are not sufficient, a backup pledge of sales tax revenue from the Build Illinois Fund may be used, up to a maximum amount as stated in the sales tax acts, shown in the table to the left. The backup pledge amounts mirror the debt service payments of the Expansion bonds.

The State backup funds have only been used in a borrowing situation and have been paid back:

- $18 million in FY 2004,
- $28 million in FY 2005,
- $38 million in FY 2006, and
- $30 million in FY 2007.

The Authority Tax Fund (reserve fund) balance was $29.6 million at the end of June 30, 2001. The fund dipped to approximately $2.3 million by June 30, 2006, but went back up to $8.5 million at the end of FY 2007. Revenue collections were strong enough in FY 2006 and FY 2007 to pay back the backup pledge, but from FY 2008 on, the MPEA does not expect revenues will be able to match the increases in debt service. The estimated revenues for FY 2008 are $114 million, while Expansion debt service will be $125.5 million. Although tax collections and operating revenues appear to be performing better, revenues will have to keep pace with the annual increases in debt service so as not to tap the State backup pledge.

Legislation has been introduced to allow the Authority to restructure and refund their debt and extend the refunding maturities to 2048, past the maturities of the bonds they would be refunding. Refunding at this time would bring in a lower interest rate, while extending and restructuring debt service payments would give them breathing room, even if local taxes under-perform in the future. The MPEA would also like to raise authorization by $350 million to expand their Hyatt Regency -McCormick Place Hotel from 800 rooms to 1400, and include a ballroom, meeting space, parking facility and other improvements for McCormick Place to remain competitive. Part of the plan to pay back the new authorization and refunded bonds would be to push out the State's back-up pledge of sales taxes to 2048 (changes shown in the table above). This would also prolong the Chicago-related taxes being imposed by the Authority for another 6 years within the MPEA area. Without these changes, MPEA sales tax receipts in FY 2008 will not be sufficient to pay back any borrowing it would do that year and future years from the State's backup pledge.

Current Debt Service for Expansion & Dedicated Bonds	
Fiscal Year	Debt Service
FY 2008	$157.6 million
FY 2009	$163.6 million
FY 2010	$170.6 million
FY 2011-FY 2015	$940.0 million
FY 2016-FY 2020	$1,051.9 million
FY 2021-FY 2025	$1,330.9 million
FY 2026-FY 2030	$1,374.9 million
FY 2031-FY 2035	$1,375.0 million
FY 2036-FY 2040	$1,375.0 million
FY 2041-FY 2042	$550.0 million
TOTAL	$8,489.5 million

The table above shows current total debt service for Dedicated and Expansion bonds combined. Expansion bond debt service increases each year through FY 2023 and then levels off through FY 2042. Dedicated bond debt service will be retired in FY 2015. Under the new plan debt service would be spread out for 6 more years and cost an additional $3.2 billion, with early debt service payments being lower to be able to surplus tax revenues for larger payments later. Once the new hotel rooms are up and running, the Authority would use these new revenues to help pay for debt service.

Toll Highway Authority Congestion-Relief Program Update

The Illinois State Toll Highway Authority's 10-year plan, named the Congestion-Relief Program, includes the first restructuring of tolls since 1983. The Program is designed to reduce congestion and add capacity by rebuilding, restoring and expanding the Tollway system and utilizing open road tolling. This Program, which was expected to cost $5.3 billion, was reassessed in the Spring of 2007. A number of projects were reevaluated and were modified or enhanced due to roadway conditions or to accommodate input from municipalities. Due to increased materials and construction costs, the budgets for remaining projects were reevaluated and in some cases increased. Finally, significant additions were made to the Program to address additional portions of the system and to provide access improvements to the Tollway. Based upon the Program changes, the overall budget for the Program was increased by $1 billion to $6.3 billion and the schedule was lengthened by two years from 2014 to 2016. These changes were approved by the Authority at its September 7, 2007 Board meeting.

More than 65% of the Authority's roads and structures are more than 45 years old. Under the Program, approximately 41% of the existing roadway will be reconstructed including rubblization, and 54% will be rehabilitated by lane-mile. Another priority is to convert the entire mainline system to open road tolling using I-PASS only lanes. The 12.5 mile south extension of the North-South Tollway known as I-355 and named Veterans Memorial Highway was constructed. This construction opened in November of 2007, and serves Will County providing a regional connection that improves north-south mobility between I-55 and I-80.

Of the $1 billion budget funding increase, half will come from additional bonding bringing the total bonding for the Program to $3.5 billion, while the other half will be paid for by Authority funds in the amount of $2.8 billion ("pay-as-you-go" from revenues). The Tollway has sold approximately $2.47 billion of bonds to date, and has refunded $766 million of debt, and restructured and remarketed another $700 million of variable-rate demand bonds. The variable-rate demand bonds were insured by XL Capital Assurance Inc., which has received several downgrades from all three rating agencies since January 2008, which in turn increased interest rates from the weekly remarketing cycles up to 7%. The restructuring allowed the Tollway to remove this insurance policy before Fitch further downgraded it to junk status. The three rating agencies have affirmed the Tollway's long-term ratings of AA-/Aa3.

The Authority plans to issue approximately $500 million in new project bonds in the third quarter of 2008. There is no dollar amount limit on the Authority's bonding, and the bonds are allowed a maximum maturity of 25 years [605 ILCS 10/17]. Tollway bonds are not backed by the State, but the Governor must approve bond sales.

In 2007, revenues were approximately $636 million (estimated, not audited numbers) and operating expenses were $225 million. Revenues in 2008 are expected to be $670 million with operating expenses at $236 million. In 2008, net revenues of $434 million minus $204 million in debt service will allow debt service coverage of 2.13 times [based on assessments from the Illinois Tollway 2008 Budget and the Illinois State Toll Highway Authority's 2008 Series A-1 and A-2 Variable Rate Refunding bond sale Official Statement].

The following table shows total debt service for outstanding bonds after the $766 million refunding bonds were issued.

2008 Refunding bonds = $766 million Toll Highway Bond Debt Service (in millions)			
Year Ending January 1	**Debt Service on Outstanding Bonds**	**Debt Service on $766 million**	**Total Debt Service**
2009	$160.1	$26.0	$186.1
2010	$150.0	$28.9	$178.9
2011	$152.2	$28.9	$181.1
2012	$152.2	$28.9	$181.1
2013	$152.2	$28.9	$181.1
2014	$185.6	$28.9	$214.5
2015	$185.6	$28.9	$214.5
2016	$185.6	$28.9	$214.5
2017	$185.6	$28.9	$214.5
2018	$180.3	$32.7	$213.0
2019	$179.6	$32.7	$212.3
2020	$183.8	$32.8	$216.6
2021	$187.8	$32.8	$220.6
2022	$186.6	$32.8	$219.4
2023	$190.3	$32.8	$223.1
2024	$191.0	$32.8	$223.8
2025	$83.9	$147.8	$231.7
2026	$99.4	$127.6	$227.0
2027	$96.4	$143.0	$239.4
2028	$142.4	$97.4	$239.8
2029	$137.4	$103.8	$241.2
2030	$132.5	$109.6	$242.1
2031	$127.5	$115.0	$242.5
TOTAL*	**$3,628.0**	**$1,330.8**	**$4,958.8**

The Commission on Government Forecasting and Accountability hired Credit Suisse to evaluate and determine the potential monetary value of the Illinois State Toll Highway. The report, "Illinois Tollway System Valuation" is available at the Commission's website, http://www.ilga.gov/commission/cgfa2006/home.aspx.

DEBT MANAGEMENT

- **Authorization**
- **Bond Sales**
- **Debt Outstanding**
- **Debt Service**
- **Recent Illinois Rating History**
- **Debt Comparisons: Illinois v. Other States**

Authorization

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 often issue debt when funds are not available to pay for projects and in time of budget crises. Today, the G.O. pledge is used 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 for FY 2003 (never used) and Pension Obligation Bonds in FY 2003. 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 4: GENERAL OBLIGATION AUTHORIZATION LEVELS

(in billions)	New Projects	Tobacco	Pension Systems	**Subtotal**	Refunding	**Total**
May 2000	$14.198	N/a	N/a	**$14.198**	$2.84	**$17.037**
June 2001	$15.265	N/a	N/a	**$15.265**	$2.84	**$18.104**
June 2002	$16.908	$0.750	N/a	**$17.658**	$2.84	**$20.497**
April 2003	$16.908	$0.750	$10.000	**$27.658**	$2.84	**$30.497**
January 2004	$16.927	$0.000	$10.000	**$27.677**	$2.84	**$29.766**

The current General Obligation bond authorization for new projects is $16.927 billion, with approximately $2.061 billion unissued as of March 31, 2008. The $10 billion of authorization for Pension Obligation Bonds was sold in one issuance in June 2003, while Tobacco "Securitization" bond authorization has expired. *The Governor is proposing a second Pension Obligation Bond issuance in the amount of $16 billion and a $1.5 billion Tobacco Settlement Securitization bond sale, both of which would require authorizing legislation.*

Total Build Illinois bond authorization equals $3.806 billion with $422 million remaining unissued as of March 31, 2008. 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 5: BUILD ILLINOIS AUTHORIZATION INCREASES
(in millions)

Year	Public Act	Increase
1999	91-0039	$754.0
2000	91-0709	$61.0
2001	92-0009	$688.7
2002	92-0598	$264.8

The following table lists the General Obligation and Build Illinois bond authorization levels per statute, what has not been issued, and the remaining authorization "Available" after expected FY 2008 appropriations.

TABLE 6: STATUS OF G.O. and BUILD ILLINOIS BONDS
as of March 31, 2008

(in billions)	Authorization	Un-Issued	Appropriated†	Available after appropriations
Capital Facilities	$7.320	$0.923	$7.589	-$0.269
School Construction	$3.150	$0.184	$3.100	$0.050
Anti-Pollution	$0.480	$0.023	$0.475	$0.005
Transportation A	$3.432	$0.109	$3.495	-$0.063
Transportation B	$1.882	$0.259	$1.861	$0.021
Coal & Energy Development	$0.663	$0.562	$0.175	$0.488
SUBTOTAL	**$16.927**	**$2.061**	**$16.695**	**$0.232**
Tobacco bonds	$0.750	$0.750	$0.000	$0.000
Pension bonds	$10.000	$0.000	$10.000	$0.000
TOTAL	**$27.677**	**$2.811**	**$26.695**	**$0.232**
	Limit	**Un-Issued**	**Outstanding**	**Available**
Refunding°	$2.839	$0.830	$2.009	$0.830
	Authorization	**Un-Issued**	**Appropriated†**	**Available after appropriations**
Build Illinois	$3.806	$0.422	$3.757	$0.049
	Limit	**Un-Issued**	**Outstanding**	**Available**
Build IL Refunding	Unlimited	N/a	$0.710	Unlimited
	Authorization	**Un-Issued**	**Outstanding**	**Available**
Civic Center	0.317	0.145	$0.054	0.145
	Limit	**Un-Issued**	**Outstanding**	**Available**
Civic Center Refunding	Unlimited	Unlimited	$0.054	Unlimited

Source: Illinois Office of the Comptroller, "Recap of General and Special Obligation Bonded

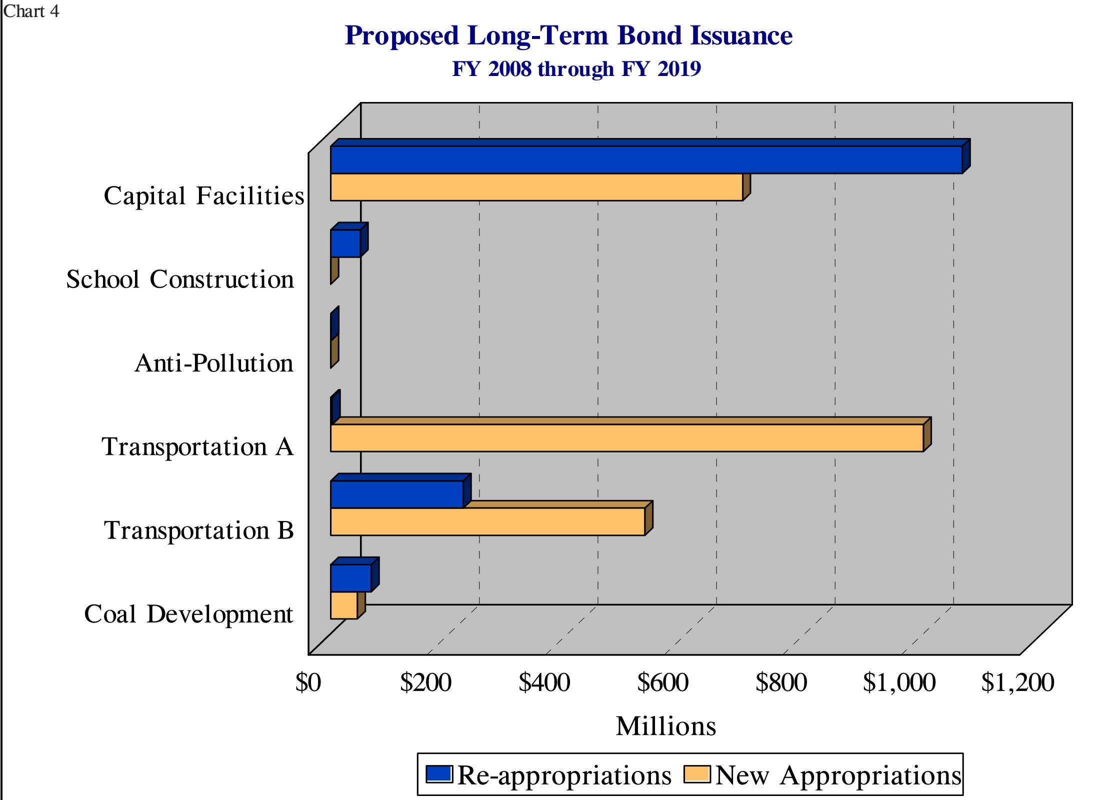
†Includes cumulative expenditures for prior years up through FY 2007 and FY 2008 appropriations and reappropriations.

*Only $6 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.

As shown by the table above, certain categories have already been over-appropriated: Capital Facilities (by $269 million), and Transportation A (by $63 million) through FY 2008. Available appropriations for every other category excluding Coal and Energy Development are nominal. With over $3.8 billion in proposed bond funding for the Governor's new capital plan, authorization for almost all categories would need to be increased, and possible revenue sources found to support new authorization.

Chart 4



Of the Governor's bond sales from FY 2008 through FY 2019, only $2.3 billion are for new projects. They would be sold for:

Capital Facilities (Capital Development Fund)	$695 million
Transportation A (roads and bridges)	$1.00 billion
Transportation B (mass transit, rail, and air)	$530 million
Coal & Energy Development	$45 million

With Capital Facilities over-authorized through FY 2008 appropriations by $269 million, authorization would need to be increased by $964 million for this category. Adding $1 billion for new bond issuance to the Transportation A category, which is over-authorized by $63 million, would require an authorization increase of $1.063 billion. Transportation B new issuances would also need an increase of $509 million. This would require a total General Obligation authorization increase request of approximately $2.536 billion. The Capital Budget does not show any new project issuances for Build Illinois Bonds, only issuances for reappropriations.

Bond Sales

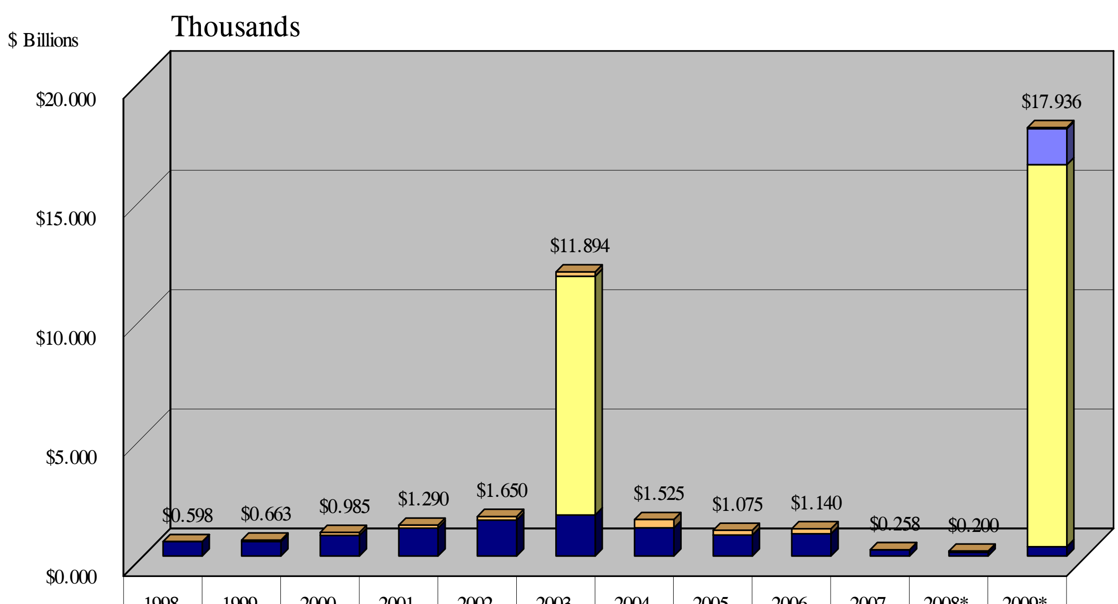
The State's capital programs have often, in part, been financed through the issuance of general obligation bonds (backed by the full faith and credit of the State) and Build Illinois (revenue) bonds. The Governor's Office of Management and Budget estimates the sale of up to $150 million of General Obligation in FY 2008. There is a competitive sale of $125 million of G.O. bonds planned for April. The total expected issuance of Build Illinois Bonds for FY 2008 is $50 million, which were sold competitively in July 2007. The Governor's Capital Plan estimates G.O. bond sales in FY 2009 to increase to $386 million and Build Illinois bond sales to again be $50 million.

For FY 2009, The Governor's Budget includes a new Pension Obligation Bond sale of approximately $16 billion to infuse funds into the State's five pension systems to decrease the $42 billion unfunded liability. The Governor also suggests the use of up to $1.5 billion of Tobacco Securitization bonds to be used for his Protecting Illinois' Families Program. To reflect the Governor's actual request, both the Pension Obligation bonds and Tobacco Securitization bonds are represented in the following graph in FY 2009. Legislation would have to be proposed to increase authorization for Illinois Works, and allow more Pension Obligation Bonds, and Tobacco Securitization bonds. If more Pension Bonds are authorized as G. O. bonds, either the 7% debt service limit would need to be raised, or the bonds excluded from the limit.

Chart 5

STATE-SUPPORTED BOND SALES

(Excludes Refunding and Short-Term Borrowing)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
State Issued Rev	$0.000	$0.060	$0.125	$0.125	$0.150	$0.182	$0.350	$0.200	$0.215	$0.000	$0.050	$0.050
Securitization												$1.500
Pension Obligation						$10.000						$16.000
General Obligation	$0.598	$0.603	$0.860	$1.165	$1.500	$1.712	$1.175	$0.875	$0.925	$0.258	$0.150	$0.386

General Obligation | Pension Obligation | Securitization | State Issued Rev

* GOMB Estimate

Source: Governor's Office of Management and Budget

Debt Outstanding

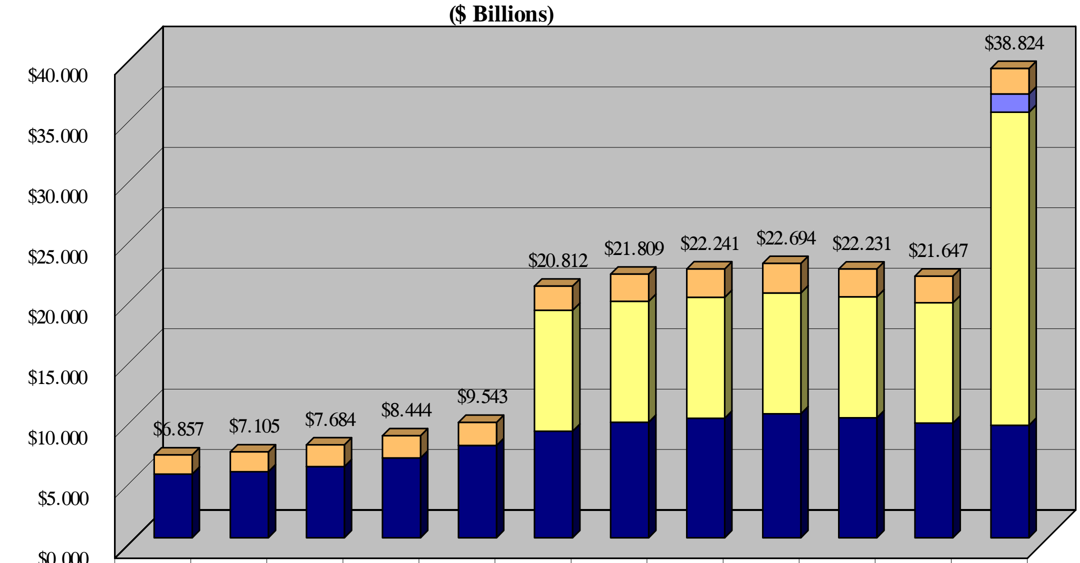
The following sections for principal outstanding and debt service will have a separate listing concerning Pension Obligation bonds, since they are not a part of the capital plan but do affect the State's outstanding debt and bond rating. Chart 6 indicates that at the end of FY 2002, principal outstanding was $9.5 billion. Total outstanding State-supported principal for FY 2003 increased to $20.8 billion, a 118.1% increase over the FY 2002 level, due to the sale of the $10.0 billion Pension Obligation Bonds. Without the Pension Obligation Bonds, debt would have increased to $10.8 billion, an increase of 13.3%. Increases from FY 2004 to FY 2006 have been in the 2%-5% range. In FY 2007, outstanding principal decreased by 2% to $22.2 billion, and is expected to decrease by 2.6% in FY 2008.

Without Pension Obligation or Tobacco Securitization bonds, outstanding principal in FY 2009 will decrease by 1.5% to $21.4 billion. If both a second Pension Obligation bond sale in the amount of $16 billion and a Tobacco Securitization sale in the amount of $1.5 billion occur in FY 2009, the State will increase principal outstanding to $38.8 billion, an increase of 79.6%, depicted in the chart below.

Chart 6

STATE-SUPPORTED PRINCIPAL OUTSTANDING

($ Billions)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
State-Issued Revenue	$1.589	$1.649	$1.798	$1.844	$1.913	$1.999	$2.253	$2.348	$2.443	$2.305	$2.209	$2.113
Securitization												$1.500
Pension						$10.000	$10.000	$10.000	$10.000	$10.000	$9.950	$25.900
General Obligation	$5.268	$5.456	$5.886	$6.600	$7.630	$8.813	$9.556	$9.893	$10.251	$9.926	$9.488	$9.311

General Obligation | Pension | Securitization | State-Issued Revenue

* Estimates made by GOMB

Sources: Governor's Office of Management and Budget

The Governor's Office of Management and Budget has highlighted the decline in outstanding principal from the FY 2006 level of $22.7 billion to the FY 2008 level of $21.6 billion, which equals approximately $1 billion. This decline in principal is due to two basic factors:

- Little or no bond issuance—there has not been a bond funded capital plan since FY 2004. Any bond issuances over the past few years were made to pay for appropriated projects from previous years. Authorization levels for most bond categories have been spent (see Table 6 on page 46). Bonds to be sold over the FY 2007-FY 2008 period are estimated to be $458 million, while bonds sold over the previous two-year period, FY 2005-FY 2006, equaled $2.2 billion.
- Paying debt service—the State has made its required debt service payments on General Obligation and State-Issued Revenue bonds, which will have paid down approximately $1.5 billion of principal from FY 2007 to FY 2008.

Issuing $458 million in new bonds while paying off $1.5 billion in principal will give you a net pay off of principal equaling $1 billion. No additional funds were spent on debt service to pay down principal.

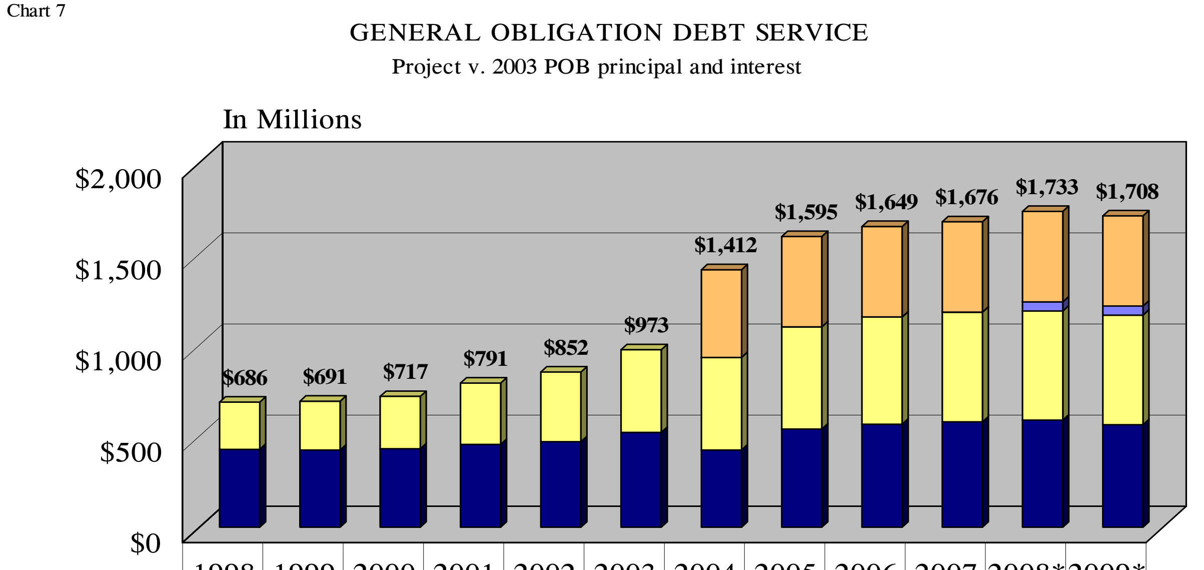
Debt Service

Total FY 2008 Debt Service for G.O. (broken out below) and State-Issued Revenue (see chart on following page) bonds combined is approximately $2 billion. This includes $1.19 billion for G.O. project bonds, $546 million for Pension Obligation Bonds, and $280 million for State-Issued Revenue bonds. Total Debt Service in FY 2009 will equal $1.99 billion, consisting of $1.16 billion for G.O. project bonds, $545 million for Pension Obligation Bonds and $279 million for State-Issued Revenue bonds. Since it is not known if the Governor's proposed Pension Obligation bonds and Tobacco securitization bonds will be approved, and if approved, when they would be issued, it is not certain whether debt service would be paid on them in FY 2009. Therefore, these numbers are not included in the FY 2009 debt service estimate.

General Obligation Bonds

FY 2008 General Obligation debt service is broken out into $588 million for project principal, $599 million for project interest, $50 million for POB principal and $496 million for POB interest. FY 2009 G.O. debt service is broken down into $562 million for project principal, $601 million for project interest, $50 million for POB principal and $495 million for POB interest. While debt service has increased every year since 1998, FY 2009 is expected to see a decrease in debt service of approximately $24.5 million, or 1.4%, which is caused by the low levels of bond sales over the past two years affecting debt service payments. But this slight reprieve in debt service payments will be short-lived, when in FY 2012, the increases in Pension Obligation debt service begins to ratchet up due to increasing principal payments. A copy of the 2003 POB debt service is located at the end of this section.

Chart 7



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
POB Interest							$481	$496	$496	$496	$496	$495
POB Principal							$0	$0	$0	$0	$50	$50
Project Interest	$259	$268	$287	$337	$383	$453	$508	$561	$588	$602	$599	$601
Project Principal	$427	$423	$431	$454	$469	$520	$424	$538	$565	$578	$588	$562

Project Principal | Project Interest | POB Principal | POB Interest

* Governor's Office of Management and Budget estimates.

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 2007, the Road Fund supported $254 million (21.5%) of G.O. debt service, the School Infrastructure Fund $233 million (19.7%) and the General Revenue Fund $693 million (58.7%).

At current debt levels, in FY 2008 the Road Fund would support an estimated $255 million (21.5%) of G.O. debt service, the School Infrastructure Fund $237 million (20.0%), and the General Revenue Fund $695 million (58.6%).

TABLE 7: GENERAL OBLIGATION DEBT SERVICE BY FUND

($ Millions)	FY 2006 Amount	FY 2006 % of Total	FY 2007 Amount	FY 2007 % of Total	Estimated FY 2008 Amount	FY 2008 % of Total
Road Fund	$258.5	22.4%	$253.7	21.5%	$254.8	21.5%
School Infrastructure Fund	$230.1	20.0%	$232.9	19.7%	$236.8	20.0%
General Revenue Fund	$664.7	57.6%	$693.0	58.7%	$694.7	58.6%
SUBTOTAL	**$1,153.3**	**100.0%**	**$1,179.6**	**100.0%**	**$1,186.3**	**100.0%**
General Revenue Fund for POBs	$417.9	84.2%	$423.7	85.4%	$470.1	86.1%
Other Funds for POBs* (*per SERS' certification)	$78.3	15.8%	$72.5	14.6%	$76.1	13.9%
SUBTOTAL	**$496.2**	**100.0%**	**$496.2**	**100.0%**	**$546.2**	**100.0%**
GRAND TOTAL	**$1,649.5**		**$1,675.8**		**$1,732.5**	

Source: Preliminary Official Statement of $125 million of G.O. Bonds, Series of April 2008.

Public Act 93-0839 requires SERS to collect a portion of POB debt service from funds used for employer contributions. 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. A total of $117.5 million was collected in FY 2005 for FY 2005 and FY 2004 debt service. FY 2004 amounts were to "repay" the General Revenue Fund for the systems' portion of FY 2004 interest on POBs, even though this interest was capitalized (paid from the bond proceeds). FY 2006 payments from SERS funds for POB debt service equaled $78.3 million and FY 2007 payments equaled $72.5 million.

FY 2008 will be the first year that a principal payment, $50 million, will be made on the 2003 Pension Obligation Bonds. The 2003 POB debt service schedule is on the following page.

TABLE 8: 2003 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**

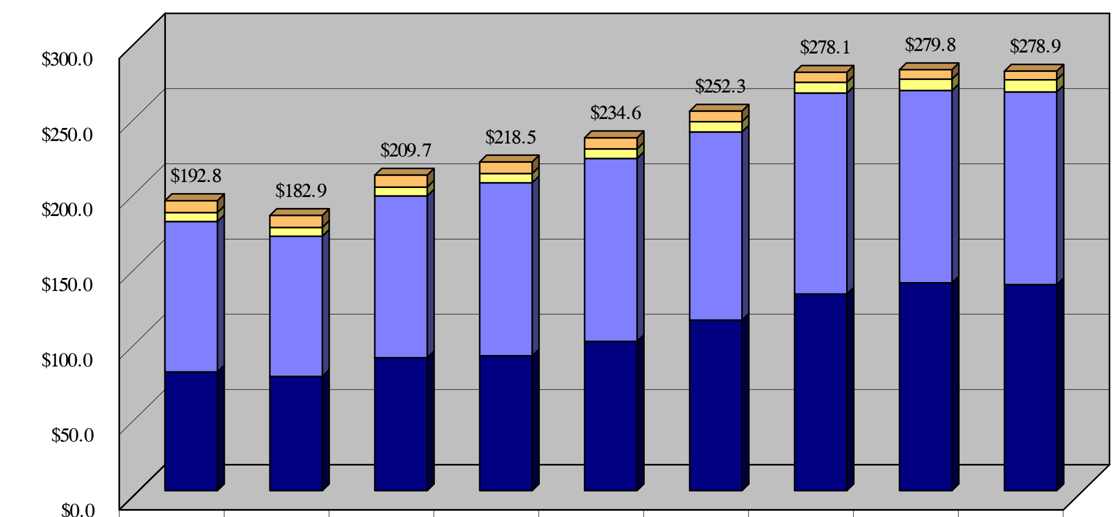
State-Issued Revenue Debt Service

Chart 8 shows debt service for Build Illinois and Civic Center bonds, which we call State-issued Revenue bonds. FY 2008 debt service will be approximately $280 million, an increase of 0.6% from the FY 2007 level. FY 2009 is estimated to be $279 million, a decrease of 0.3% over the previous year.

Chart 8

STATE-ISSUED REVENUE DEBT SERVICE

Principal and Interest



	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
CC Interest	$7.9	$7.9	$8.0	$7.7	$7.4	$7.1	$6.7	$6.2	$5.8
CC Principal	$6.0	$5.9	$5.9	$6.2	$6.5	$6.8	$7.2	$7.6	$8.1
BI Interest	$100.0	$93.1	$107.5	$115.0	$121.5	$125.0	$133.5	$127.8	$128.0
BI Principal	$78.9	$76.0	$88.4	$89.7	$99.2	$113.4	$130.7	$138.1	$137.0

BI Principal BI Interest CC Principal CC Interest

Source: Governor's Office of Management and Budget

Fiscal Year 2008 debt service for Build Illinois bonds is expected to be $266 million, comprised of $138 million in principal payments and $128 million in interest. FY 2009 Build Illinois debt service payments are estimated to be $265 million, of which $137 million will be for principal payments and $128 million for interest payments. The slight decline in debt service is due to lower issuance of Build Illinois bonds since FY 2007. There were no Build Illinois bonds sold in FY 2007, and both FY 2008 and FY 2009 will have approximately $50 million in issuance each year. FY 2005 and FY 2006 both had over $200 million in bond issuances.

Debt service for Civic Center bonds in FY 2008 will be approximately $13.8 million with the principal portion equaling $7.6 million and interest payments equaling $6.2 million. Civic Center bonds debt service payments for FY 2009 will be approximately $13.9 million, comprised of $8.1 million in principal and $5.8 million in interest.

Recent Illinois Ratings History

On May 13, 2003, Moody's lowered the State of Illinois' general obligation 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, 2003, 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.]

GENERAL OBLIGATION BOND RATINGS				
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 affirmed their AA rating as stable. In April 2006, Fitch reaffirmed its AA rating, but put the State on their negative watch list due to concerns over Illinois' unfunded pension liability.

For the G.O. bond sales in June of 2006, Moody's reaffirmed its Aa3 rating and stable outlook "based on broad governmental powers to raise revenues and lower spending, as well as a diversified economy returning to growth in line with national trends…Balanced against these strengths are credit challenges such as narrow reserve and liquidity levels, the use of non-recurring measures to address structural budget gaps, a sizeable accumulated pension fund deficit, and a growing debt burden".

In April 2008, Standard & Poor's reaffirmed its stable outlook on the AA rated bonds adding strengths of--ongoing budgetary adjustments, increased combined funds and budget stabilization fund cash reserves, reductions in accounts payable including lapse period spending, approved pension reform, and the ability through legislative action to access substantial amounts of cash for operations that are on deposit in other funds. S&P sees the challenges to the State as being the High GAAP general funds deficit, the large unfunded actuarial accrued liability for its five pensions, and a fairly high debt burden.

Moody's has stated that Illinois' large pension liability has been a concern, and that their Aa3 rating for the State is partly based on this liability. Challenges that the State faces include the debt burden that doubled with the 2003 Pension Obligation Bond debt issuance, the history of negative GAAP-basis general fund balances, and the current year budget shortfall. Other issues that could affect the State's rating downward include the late adoption of the State's FY 2008 budget and issues facing the FY 2009 budget, and "the state's still incomplete efforts to release a fiscal 2007 CAFR, 10 months after the end of the year, (which) indicates that delayed financial reporting also remains a concern".

In an April 2008 review of Illinois G.O. debt for the State's April $125 million issuance, Fitch reaffirmed its AA rating with a continued negative outlook. "The Negative Rating Outlook reflects continued financial challenges, including a current year revenue shortfall and balancing an upcoming budget pressured by the weakened national economic environment and continued significant growth in funding requirements to address the pension systems' large unfunded liabilities...Fitch will revisit the outlook and rating following decisions made in the 2009 budget and will assess the extent to which solutions address fiscal balance.

S&P gives the State's sales-tax backed Build Illinois bonds an AAA rating with a stable outlook which "reflects both the state's extremely strong legal protections against dilution of coverage by additional debt and strong sales tax revenue growth." Fitch gives Build Illinois bonds an AA rating while Moody's Aa3 is based on "the breadth and long-term growth of the state economy and sales tax base, very high debt service coverage provided by the pledged revenue stream, and the fact that sales-tax revenue in excess of the amount necessary to pay debt service comprises a large and essential component of state general fund revenues."

Debt Comparisons: Illinois v. Other States

Table 9 shows Illinois' ranking in comparison with the top ten states for the most net tax-supported debt per capita as reported in Moody's *State Debt Medians* reports of 2003 through 2008. The 2002 column shows the State's pre-Pension Obligation Bond debt per capita at $1,040 reflecting the 11th highest state in the nation. In 2004 the per capita debt outstanding rose across the nation with the national average at $999; and in 2005 the national average rose to $1,060. After the sale of the 2003 Pension Obligation bonds Illinois moved up to be the 6th highest state in debt per capita, where we stayed from 2003 through 2005. Illinois dropped down to 7th place in 2006 with debt per capita at $1,976, and remains at 7th for FY 2007 with a debt per capita of $1,985.

TABLE 9:	NET TAX-SUPPORTED DEBT PER CAPITA					
	2002 (pre POB sale)		2005		2007	
RANK	STATE	PER CAPITA DEBT OUTSTANDING	STATE	PER CAPITA DEBT OUTSTANDING	STATE	PER CAPITA DEBT OUTSTANDING
1	Connecticut	$3,440	Massachusetts	$4,128	Massachusetts	$4,529
2	Massachusetts	$3,298	Hawaii	$3,905	Connecticut	$3,698
3	Hawaii	$3,111	Connecticut	$3,624	Hawaii	$3,663
4	New Jersey	$2,110	New Jersey	$3,276	New Jersey	$3,478
5	New York	$2,095	New York	$2,569	New York	$2,762
6	Delaware	$1,599	**Illinois**	**$2,026**	Delaware	$2,002
7	Rhode Island	$1,508	Delaware	$1,845	**Illinois**	$1,985
8	Washington	$1,507	Washington	$1,684	Washington	$1,908
9	Mississippi	$1,207	California	$1,597	Rhode Island	$1,766
10	Kentucky	$1,095	Wisconsin	$1,437	California	$1,685
11	**Illinois**	**$1,040**				
RANGE	$3,440 to $38 (Nebraska)		$4,128 to $27 (Nebraska)		$4,529 to $22 (Nebraska)	

SOURCE: Moody's State Debt Medians reports from 2003 through 2008.
This table uses a measure done by Moody's rating agency.

Table 10 lists the ten states that have the highest net tax supported debt in the U.S. In 2002 (pre-Pension Obligation Bonds), Illinois was ranked 6th highest in net tax supported debt with $13.1 billion, an estimated 5% of the nation's $261 billion total. In 2004 (not shown here), the national total was $340 billion, and Illinois was ranked 3rd with $25.7 billion in net tax-supported debt, making up approximately 7.5% of the nation's total. In 2005, Illinois' debt increased by approximately $200 million to $25.9 billion and dropped to the 5th highest state with 7.2% of the nation's $360 billion total. In 2006 and 2007, Illinois net tax supported debt was 6.7% and 6.4% respectively, placing it as the 5th highest state in the nation in net tax-supported debt.

TABLE 10:	10 HIGHEST STATES IN NET TAX-SUPPORTED DEBT in billions								
	2002 National Total = $261			2005 National Total = $360			2007 National Total = $398		
	2002 (pre POB sale)			2005			2007		
RANK	STATE	DEBT	% OF NATION	STATE	DEBT	% OF NATION	STATE	DEBT	% OF NATION
1	New York	$40.1	15.4%	California	$57.7	16.0%	California	$61.6	15.5%
2	California	$28.4	10.9%	New York	$49.5	13.7%	New York	$53.3	13.4%
3	Massachusetts	$21.2	8.1%	New Jersey	$28.6	7.9%	New Jersey	$30.2	7.6%
4	New Jersey	$18.1	6.9%	Massachusetts	$26.4	7.3%	Massachusetts	$29.2	7.3%
5	Florida	$16.5	6.3%	**Illinois**	**$25.9**	**7.2%**	**Illinois**	**$25.5**	6.4%
6	**Illinois**	**$13.1**	**5.0%**	Florida	$17.4	4.8%	Florida	$18.3	4.6%
7	Connecticut	$11.9	4.6%	Connecticut	$12.7	3.5%	Connecticut	$13.0	3.3%
8	Washington	$9.1	3.5%	Washington	$10.6	2.9%	Washington	$12.3	3.1%
9	Ohio	$8.6	3.3%	Ohio	$10.5	2.9%	Texas	$11.5	2.9%
10	Pennsylvania	$8.5	3.3%	Pennsylvania	$9.5	2.6%	Ohio	$11.1	2.8%
RANGE	$40 billion to $61 million			$58 billion to $48 million			$59 billion to $40 million		

SOURCE: Moody's State Debt Medians reports from 2003 through 2007.
This table uses a measure done by Moody's rating agency.

The current ratings for the above states are shown in the chart on the following page. California has the lowest ratings of this grouping due to the large amounts of debt it has taken on over the years since the last recession. Although California saw multiple downgrades in 2003, they have received upgrades from S&P and Fitch and two level upgrades from Moody's in 2005. New York also was upgraded by Moody's in December of 2005. S&P raised the State of Washington's general obligation bond rating from AA to AA+ in November 2007, since they have added a constitutional amendment to create a budget reserve fund.

Moody's forecasts that increased spending pressures fighting for funding with capital needs, will cause more debt issuance; but, that this could be tempered by the need for many states to refinance auction rate and variable rate bonds to fixed interest rates due to "inflationary factors or technical market considerations". In a report entitled, "A Weak Economy Will Tax U.S. States' 2009 Budgets", Standard & Poor's reports that the economic and credit climate has increased state budget gaps in 2008 and will continue to do so in 2009. How each state will fare is dependent on reserves available and any flexibility to manage revenue volatility. While sales tax revenues have declined for the forty-five states who impose them, and income taxes will be dependent on the job situation of each state, the "capital gains component – historically volatile and difficult to predict—of income tax will clearly be affected by trends in the real estate and financial markets". According to S&P, states will increase borrowing for education, infrastructure which would also aid economic development, and pension liabilities.

CHART 9

G.O. BOND RATINGS FOR SELECTED STATES
(as of March 2008)

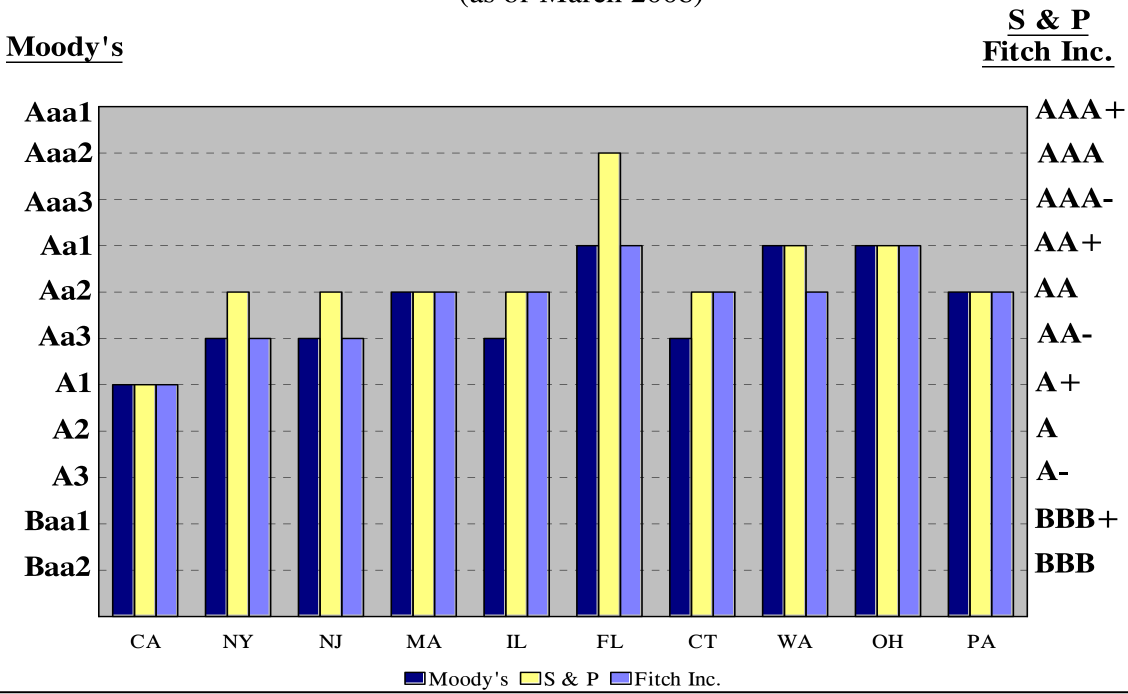
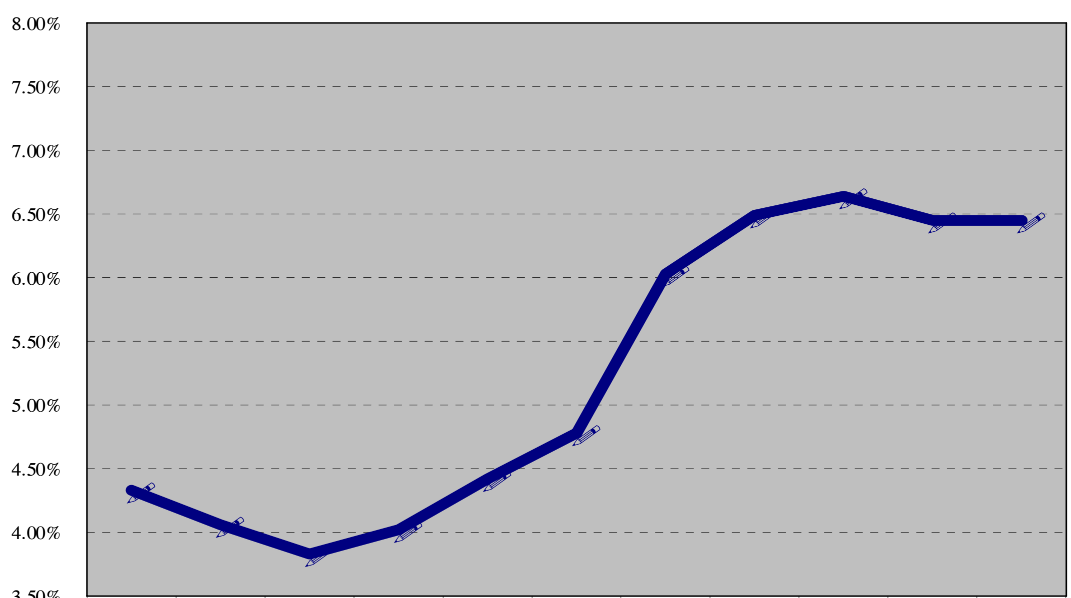


Chart 10 shows a history of general obligation and State-issued revenue debt service as a percentage of general funds receipts.

CHART 10

G.O. AND STATE-ISSUED REVENUE BOND DEBT SERVICE TO GENERAL FUNDS RECEIPTS



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*
percentage	4.33%	4.06%	3.83%	4.02%	4.42%	4.78%	6.03%	6.49%	6.64%	6.45%	6.45%

*CGFA Estimate

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
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