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**State of Illinois**  
**COMMISSION ON GOVERNMENT**  
**FORECASTING AND ACCOUNTABILITY**  
703 Stratton Ofc. Bldg., Springfield, IL 62706  
217/782-5320 Fax: 217/782-3513  
[cgfa.ilga.gov](http://cgfa.ilga.gov)

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April 3, 2014

**MEMORANDUM**

**TO:** John J. Cullerton, President of the Senate  
Michael J. Madigan, Speaker of the House of Representatives  
Christine Radogno, Minority Leader of the Senate  
Jim Durkin, Minority Leader of the House of Representatives  
Jerry Stermer, Governor's Office of Management and Budget  
Dr. Larry Dietz, President, Illinois State University

**RE:** *Report of the Commission's Findings Concerning Illinois State University's Issuance of \$25 million - Series 2014 Certificates of Participation*

The Commission met on Wednesday, March 19, 2014, to hear and take action on the proposed issuance of \$25 million of Certificates of Participation (COPs) by Illinois State University. The following documentation details background information on the projects to be funded, the Certificates to be issued and the University's debt.

**Law:** Under the **State University Certificates of Participation Act** [110 ILCS 73], any State university planning to issue Certificates of Participation (COPs) must appear before the Commission at a public hearing to present the details of the proposal. Upon adoption by a vote of the majority of appointed members, the Commission shall issue a record of findings within 60 days after the request by the university, but within 15 days of the hearing. The Commission shall consider the effect the issuance of COPs shall have on the State University's annual debt service and overall fiscal condition. Within the findings shall be a statement in which the Commission makes a recommendation of either (i) "favorably recommended", (ii) "recommended with concerns", or (iii) "non-support of issuance". Upon a finding of "non-support of issuance", a State University may not proceed with the issuance of the certificate involved in the finding without the approval of the General Assembly through adoption of a joint resolution.

*Illinois State University requested a hearing to be approved for the issuance of Certificates of Participation.*

*Time Line:*

*February 10, 2014*

*Commission Received Request for Hearing*

*March 19, 2014*

*CGFA Hearing Held*

*April 3, 2014*

*Recommendation Required*

***Illinois State University Certificates of Participation Series 2014***

Certificates of Participation Amount	\$25 million
Maturity	2034
Estimated True Interest Cost	4.532%
Estimated Average Annual Debt Service	\$1.9 million

***Terms of COP***

The Series 2014 Certificates of Participation would be sold for up to \$25 million. Approximately \$20 million of the total would be for funding information technology improvements and the remaining \$5 million to finance high priority facilities improvement projects.

The University plans to issue two series together, 2014A-1 and 2014A-2. The 2014A-1 COPs would be sold for \$9.075 million, mature in 2025, and receive an estimated True Interest Cost of 2.884%. The 2014A-2 COPs would be sold for \$15.925 million, mature in 2034 and receive an estimated TIC of 4.912%. The combined estimated TIC would be 4.532%. ISU plans to issue the Certificates through a competitive public offering, and close the sale in May 2014.

The University, as a receiver of State aid, has its ratings tied to the State, and may have a higher interest rate than normal due to the State's financial situation. Moody's has ISU rated A3, based on Illinois' A3 rating. Standard & Poor's rates ISU at A+ and the State at A-.

***Purpose of Projects:***

The first \$20 million of the total COPs would be for funding information technology improvements under the University's multi-year plan, the *LEAPForward* Initiative, which will upgrade obsolete academic and student information systems. Total improvements for the Initiative are estimated to be \$24 million, \$4 million of which has already been funded by the University through internal reallocations for the initial business process management review and technology architecture costs.

The remaining \$5 million of the COP issuance will go to finance high priority academic facilities improvement projects consistent with the University's *Campus Master Plan* and strategic plan *Educating Illinois*. The Board of Trustees of Illinois State University approved the projects and issuance of Certificates of Participation at their December 14, 2013 meeting. Projects targeted will be:

### ***Information Technology Improvements***

#### **1. Student Information System**

**Cost:** \$13,000,000

**Expected Completion Date:** Fall 2015

**Useful life:** 20 years

The new Student Information System will be simpler to access and use, run more efficiently and provide more integrated, timely, and reliable student information. Such systems contain modules that collect data on student recruitment, admissions, financial aid, advising, degree audits, accounts receivable, transcripts, and other student records. The implementation of this system will enable information integration throughout the entire campus, reduce duplication between departments, and allow faculty, staff, and students the ability to utilize information more efficiently.

This project will replace current obsolete legacy systems which require significant expense to maintain and operate and require the use of extensive manual processes.

#### **2. Business Intelligence System**

**Cost:** \$3,700,000

**Expected Completion Date:** Spring 2015

**Useful life:** 20 years

The implementation of a Business Intelligence (BI) system will give the University the ability to collect, maintain, and organize data more efficiently across their multiple systems. The new system will provide easier access and more reliable data for reporting. Currently, much of the information is unavailable or requires extensive manual tracking.

The BI system will replace obsolete legacy reporting systems and manual data tracking for improved administrative data management.

#### **3. Technology Architecture**

**Cost:** \$2,800,000

**Expected Completion Date:** Spring 2015

**Useful life:** 20 years

Implementation of new technology architecture will update the IT infrastructure that supports the new Student Information System and other University wide systems. Its components include an identity and access management system, a payment management system, a housing and dining management system, and an IT service management system.

Completion of this project will result in more efficient operations of University IT systems which will significantly reduce manual intervention in the management of data. It will also enhance services available to students, faculty, and staff.

### *Academic Facilities Improvements*

#### **1. Illinois State University Farms-Bridge Replacement**

**Cost:** \$75,000

**Expected Completion Date:** Summer 2014

**Useful life:** 25 years

The existing bridge on the west side of the University's Farm is the only access point for equipment for crop production on approximately 80 acres of farmland. The width of the bridge does not safely accommodate newer farm equipment. A new box culvert bridge will be installed to promote safety of farm workers and others visiting the University's Farm.

#### **2. Family and Consumer Sciences- Lab and Test Kitchen Renovations**

**Cost:** \$750,000

**Expected Completion Date:** Fall 2015

**Useful life:** 25 years

This project involves remodeling of the laboratory and test kitchen area in Turner Hall. This area has not undergone renovation in approximately 50 years, despite changes in the Family and Consumer Sciences curriculum. Upgrading this laboratory is critical to ensuring students are trained in food production in a commercial setting. The new laboratory also will accommodate faculty and student research.

#### **3. Animal Care Facilities- Security and Operation Compliance**

**Cost:** \$900,000

**Expected Completion Date:** Fall 2017

**Useful life:** 25 years

Renovation and upgrades to areas housing animals are important to the continuation of faculty research and to ensuring compliance with federal regulations. This project will involve renovation of facilities used by faculty in the School of Biological Sciences and the Department of Psychology.

#### **4. Felmley Hall- Laboratory and Office Renovations**

**Cost:** \$275,000

**Expected Completion Date:** Fall 2016

**Useful life:** 25 years

Renovation to create two laboratories will improve space utilization and increase opportunities for undergraduate students to engage in research. The more modern laboratory facilities for the Geography and Geology will positively affect faculty and student recruitment and retention.

## **5. Honors Program- Facilities Relocation and Renovation**

**Cost:** \$750,000

**Expected Completion Date:** Summer 2016

**Useful life:** 25 years

The Honors program is currently in a former dental office, and the space is not large enough to adequately house the Honors Program. The current facility lacks sufficient meeting space for students and faculty and includes no room for seminars, presentations, or gathering of students in the Honor's Program. This project would provide for remodeling to accommodate the Honors Program.

## **6. Research and Sponsored Programs- Facilities Relocation and Renovation**

**Cost:** \$750,000

**Expected Completion Date:** Fall 2018

**Useful life:** 25 years

This project will provide for the development of space for a University Research Center. The Center will provide support for faculty in identifying grant opportunities, making applications for grants, and administering grant awards. The Center is envisioned as a location where faculty can foster internal and external partnerships and collaborations and identify intellectual property opportunities and commercialization. Remodeling will provide office space to accommodate this work.

## **7. Milner Library- Public Restrooms, ADA Compliance, and Other Repairs**

**Cost:** \$1,500,000

**Expected Completion Date:** Summer 2018

**Useful life:** 25 years

This project will provide for miscellaneous remodeling activities in Milner Library to improve functionality, fix infrastructure issues, and address code issues. Plans include upgrading restroom facilities to address accessibility concerns and to replace dated plumbing fixtures and water piping. Other remodeling work will include replacement of carpeting and making modifications to the heating, ventilating and air condition system serving office areas and the Digital Center of the fourth and fifth floors of the facility.

Additionally, work will address concerns about space for the University Archives that is located at a facility located a few miles from the main campus. Located at the Warehouse Road complex, the Archives maintain environmentally sensitive materials. The demand for more space continues to grow as items are continually added to the Archives.

This remodeling work associated with this project will protect the State and University's investments in Milner Library and the University Archives and promote continued use of the facilities.

**Financing of the Projects:**

The Certificates of Participation estimated sources and uses of funds are listed below.

**Board of Trustees of Illinois State University  
Certificates of Participation, Series 2014  
Estimated Sources and Uses of Funds**

<u>Sources</u>	<u>Series 2014A-1</u>	<u>Series 2014A-2</u>	<u>TOTAL</u>
Bond Principal	\$9,075,000	\$15,925,000.00	\$25,000,000.00
<b><u>Uses:</u></b>			
Proceeds Available for Project	\$8,969,730	\$15,581,020	\$24,550,750
Underwriter's Discount	45,375	238,875	284,250
Costs of Issuance	<u>59,895</u>	<u>105,105</u>	<u>165,000</u>
Total Uses	\$9,075,000	\$15,925,000.	\$25,000,000.
<b><u>Assumptions:</u></b>			
Type of Issue	COPs	COPs	
Dated & Delivery Date	5/1/2014	5/1/2014	5/1/2014
Maturity Range	4/1/15 - 4/1/23	4/1/24 - 4/1/34	4/1/15 - 4/1/34
Underwriter's Discount	\$5.00 / \$1,000	\$15.00 / \$1,000	\$11.37 / \$1,000
Average Life	5.048 years	15.367 years	11.621 years
Bond Yield	-	-	4.401%
True Interest Cost (TIC)	2.884%	4.912%	4.532%

Debt Service Coverage Ratio of New Project Money	FY 2015 -	2.57x
	FY 2016 -	2.84x
	FY 2017 -	2.99x

Note: a 2.0x debt service coverage ratio is considered strong for a municipal/government entity bond.

**Payment of COPs**

The debt service on the new project COPs will be paid from general revenues of the University. The debt service schedule is below. An additional table follows showing the University's expenditures including COP debt service.

**Board of Trustees of Illinois State University**  
**Certificates of Participation, Series 2014A**  
**Annual Debt Service**

Fiscal Year	Series 2014A-1				Series 2014A-2				Combined Total
	Principal	Rate	Interest	Total	Principal	Rate	Interest	Total	
6/30/2014									
6/30/2015	950,000.00	0.60%	186,674.58	1,136,674.58			688,884.17	688,884.17	1,825,558.75
6/30/2016	955,000.00	0.95%	197,945.00	1,152,945.00			751,510.00	751,510.00	1,904,455.00
6/30/2017	965,000.00	1.25%	188,872.50	1,153,872.50			751,510.00	751,510.00	1,905,382.50
6/30/2018	975,000.00	1.65%	176,810.00	1,151,810.00			751,510.00	751,510.00	1,903,320.00
6/30/2019	990,000.00	2.20%	160,722.50	1,150,722.50			751,510.00	751,510.00	1,902,232.50
6/30/2020	1,015,000.00	2.65%	138,942.50	1,153,942.50			751,510.00	751,510.00	1,905,452.50
6/30/2021	1,040,000.00	3.10%	112,045.00	1,152,045.00			751,510.00	751,510.00	1,903,555.00
6/30/2022	1,075,000.00	3.50%	79,805.00	1,154,805.00			751,510.00	751,510.00	1,906,315.00
6/30/2023	1,110,000.00	3.80%	42,180.00	1,152,180.00			751,510.00	751,510.00	1,903,690.00
6/30/2024					1,155,000.00	4.00%	751,510.00	1,906,510.00	1,906,510.00
6/30/2025					1,200,000.00	4.20%	705,310.00	1,905,310.00	1,905,310.00
6/30/2026					1,250,000.00	4.35%	654,910.00	1,904,910.00	1,904,910.00
6/30/2027					1,305,000.00	4.50%	600,535.00	1,905,535.00	1,905,535.00
6/30/2028					1,365,000.00	4.60%	541,810.00	1,906,810.00	1,906,810.00
6/30/2029					1,425,000.00	4.70%	479,020.00	1,904,020.00	1,904,020.00
6/30/2030					1,490,000.00	4.80%	412,045.00	1,902,045.00	1,902,045.00
6/30/2031					1,565,000.00	4.90%	340,525.00	1,905,525.00	1,905,525.00
6/30/2032					1,640,000.00	5.00%	263,840.00	1,903,840.00	1,903,840.00
6/30/2033					1,720,000.00	5.10%	181,840.00	1,901,840.00	1,901,840.00
6/30/2034					1,810,000.00	5.20%	94,120.00	1,904,120.00	1,904,120.00
	9,075,000.00		1,283,997.08	10,358,997.08	15,925,000.00		11,726,429.17	27,651,429.17	38,010,426.25

**Illinois State University**  
**Debt Service Coverage on COPs**

For Fiscal Year Ending June 30	2014	2015	2016	2017
<b>Total Tuition and Fees</b>	\$ 171,111.0	\$ 176,411.0	\$ 180,911.0	\$ 184,911.0
<b>Expenditures</b>				
Personal Services	\$ 81,574.5	\$ 83,206.0	\$ 84,870.1	\$ 86,567.5
Medicare	\$ 2,400.0	\$ 2,448.0	\$ 2,497.0	\$ 2,546.9
Contractual	\$ 36,327.1	\$ 37,053.6	\$ 37,794.7	\$ 38,550.6
Travel	\$ 1,519.4	\$ 1,549.8	\$ 1,580.8	\$ 1,612.4
Commodities	\$ 2,197.8	\$ 2,241.8	\$ 2,286.6	\$ 2,332.3
Equipment	\$ 9,229.8	\$ 9,414.4	\$ 9,602.7	\$ 9,794.7
Telecommunications	\$ 2,562.5	\$ 2,613.8	\$ 2,666.0	\$ 2,719.3
Operation Auto	\$ 671.1	\$ 684.5	\$ 698.2	\$ 712.2
Awards and Grants	\$ 13,629.2	\$ 14,129.2	\$ 14,379.2	\$ 14,629.2
Permanent Improvements	\$ 7,192.9	\$ 7,336.8	\$ 7,483.5	\$ 7,633.2
Group Health Insurance	\$ 3,078.3	\$ 3,078.3	\$ 3,078.3	\$ 3,078.3
<b>Total Expenditures</b>	<b>\$ 160,382.6</b>	<b>\$ 163,756.1</b>	<b>\$ 166,937.1</b>	<b>\$ 170,176.7</b>
<b>Total available for Debt Service</b>	<b>\$ 10,728.4</b>	<b>\$ 12,654.9</b>	<b>\$ 13,973.9</b>	<b>\$ 14,734.3</b>
2008 Debt Service	\$ 1,722.8	\$ 1,722.8	\$ 1,722.8	\$ 1,722.8
2011 Debt Service	\$ 1,294.5	\$ 1,294.5	\$ 1,294.5	\$ 1,294.5
2014 Projected Debt Service	\$ 1,906.8	\$ 1,906.8	\$ 1,906.8	\$ 1,906.8
<b>Total Debt Service</b>	<b>\$ 4,924.1</b>	<b>\$ 4,924.1</b>	<b>\$ 4,924.1</b>	<b>\$ 4,924.1</b>
<b>Coverage Ratio</b>	<b>2.18x</b>	<b>2.57x</b>	<b>2.84x</b>	<b>2.99x</b>

Note: Total Tuition and Fees assumes modest tuition increases in order to project out future years. These increases have not been authorized by the Board.



### *Current ISU Debt*

The State University Certificates of Participation Act places a limit on COP debt service for each of the State universities. Illinois State University's COP debt service limit is \$10 million annually.

The table on the following page shows the amount of debt service for current University debt, not including the requested COPs. The 2014 Certificates' debt service will remain around \$1.9 million annually, added together with the debt service of outstanding COPs, total COP debt service will remain at or below \$4.9 million annually.

As of the end of FY 2013, COP outstanding principal is \$37.2 million, while the University's bonds carried an outstanding principal of \$99.6 million. Total Debt Service for COPs and Bonds will range from \$15.7 million to \$10.2 million from FY 2015 through FY 2031, then \$6.5 million to \$1.9 million from FY 2032 to FY 2034. Auxiliary Facility bonds from 1996, 2003 and 2012 B will all be paid off on or before FY 2018 and the 2008 COP Series will be paid off in FY 2028.

The Board of Trustees of Illinois State University  
Auxiliary Facilities System & Certificates of Participation

Summary of Outstanding Annual Debt Service Requirements

Fiscal Year Ending	<u>Auxiliary Facilities System Revenue Bonds</u>							<u>Certificates of Participation</u>			Combined University Debt Service
	Series 2012B	Series 2012A	Series 2008	Series 2006	Series 2003	Series 1996	System Total	Series 2011	Series 2008	Total	
6/30/2013	50,141.88	616,875.00	2,207,801.26	2,972,950.00	4,766,950.00		10,614,718.14	1,293,942.50	1,720,625.00	3,014,567.50	13,629,285.64
6/30/2014	557,305.00	705,000.00	2,205,951.26	1,671,515.00	0.00	1,335,000.00	6,474,771.26	1,284,742.50	1,713,775.00	2,998,517.50	9,473,288.76
6/30/2015	550,805.00	705,000.00	2,206,511.26	1,671,515.00	0.00	5,710,000.00	10,843,831.26	1,284,942.50	1,721,050.00	3,005,992.50	13,849,823.76
6/30/2016	543,305.00	705,000.00	2,209,211.26	1,671,515.00	0.00	5,710,000.00	10,839,031.26	1,279,142.50	1,719,487.50	2,998,630.00	13,837,661.26
6/30/2017	999,305.00	705,000.00	2,208,751.26	3,636,515.00	0.00		7,549,571.26	1,272,542.50	1,714,087.50	2,986,630.00	10,536,201.26
6/30/2018	599,040.00	1,090,000.00	2,209,991.26	3,634,880.00	0.00		7,533,911.26	1,275,142.50	1,717,287.50	2,992,430.00	10,526,341.26
6/30/2019		1,688,450.00	2,207,591.26	3,633,280.00	0.00		7,529,321.26	1,276,542.50	1,713,687.50	2,990,230.00	10,519,551.26
6/30/2020		1,683,600.00	2,211,391.26	3,633,480.00	0.00		7,528,471.26	1,276,742.50	1,718,487.50	2,995,230.00	10,523,701.26
6/30/2021		1,687,900.00	2,211,366.26	3,634,177.50	0.00		7,533,443.76	1,283,805.00	1,721,287.50	3,005,092.50	10,538,536.26
6/30/2022		1,685,800.00	2,207,966.26	3,635,082.50	0.00		7,528,848.76	1,282,130.00	1,720,550.00	3,002,680.00	10,531,528.76
6/30/2023		1,687,000.00	2,206,091.26	3,636,495.00	0.00		7,529,586.26	1,281,755.00	1,722,750.00	3,004,505.00	10,534,091.26
6/30/2024		1,686,400.00	2,210,408.76	3,638,160.00			7,534,968.76	1,292,255.00	1,716,012.50	3,008,267.50	10,543,236.26
6/30/2025		1,684,000.00	2,206,018.76	3,634,170.00			7,524,188.76	1,290,005.00	1,717,150.00	3,007,155.00	10,531,343.76
6/30/2026		1,684,800.00	2,208,093.76	3,634,420.00			7,527,313.76	1,294,515.00	1,720,737.50	3,015,252.50	10,542,566.26
6/30/2027		1,688,600.00	2,209,968.76	3,633,375.00			7,531,943.76	725,175.00	1,714,675.00	2,439,850.00	9,971,793.76
6/30/2028		1,685,200.00	2,208,187.52	3,637,170.00			7,530,557.52	727,350.00	1,719,025.00	2,446,375.00	9,976,932.52
6/30/2029		1,684,800.00	2,202,750.00	3,633,842.50			7,521,392.50	732,950.00		732,950.00	8,254,342.50
6/30/2030		1,687,200.00	2,206,500.00	3,634,860.00			7,528,560.00	736,712.50		736,712.50	8,265,272.50
6/30/2031		1,687,200.00	2,210,750.00	3,633,120.00			7,531,070.00	738,637.50		738,637.50	8,269,707.50
6/30/2032		1,684,800.00	2,210,250.00				3,895,050.00	742,893.76		742,893.76	4,637,943.76
6/30/2033			2,205,000.00				2,205,000.00				2,205,000.00
<hr/>											
	\$3,299,901.88	\$28,132,625.00	\$46,370,551.42	\$62,510,522.50	\$4,766,950.00	\$12,755,000.00	\$157,835,550.80	\$22,371,923.76	\$27,490,675.00	\$49,862,598.76	\$207,698,149.56
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<b>Outstanding Principal as of 3/1/2013 (With Accreted Value on CABS)</b>	\$3,050,000.00	\$18,230,000.00	\$28,915,000.00	\$40,880,000.00	\$4,180,000.00	\$10,672,147.03	\$105,927,147.03	\$14,675,000.00	\$19,675,000.00	\$34,350,000.00	\$140,277,147.03

After carefully reviewing the information submitted by Illinois State University to issue \$25 million in Certificates of Participation, the Commission voted on March 19, 2014, by a vote of 7-0-0, to favorably recommend the issuance of COPs. A copy of the vote appears on the following page.

Recommendation:

**Favorably Recommended**



\_\_\_\_\_  
Senator Michael Frerichs  
CGFA Co-Chairman



\_\_\_\_\_  
Representative Jil Tracy  
CGFA Co-Chairman

DRL:lk  
S408

**COMMISSION MEMBERS ROLL-CALL**

*Hearing Date: Wednesday, March 19, 2014 – 11:00 a.m.*

***Proposed Illinois State University Issuance of  
2014 Certificates of Participation***

**Motion:** Favorably Recommend

<b>Commission Member</b>	<b>MOTION VOTE</b>		
	<b>YES</b>	<b>NO</b>	<b>Present</b>
Representative Kelly Burke (D)	✓		
Senator Michael Frerichs (D)	✓		
Senator David Koehler (D)	✓		
Senator Matt Murphy (R)			
Representative Elaine Nekritz (D)	✓		
Representative Raymond Poe (R)	✓		
Representative Al Riley (D)			
Senator Chapin Rose (R)			
Senator David Syverson (R)			
Representative Jil Tracy (R)	✓		
Senator Donne Trotter (D)			
Representative Michael Tryon (R)	✓		
<b>Vote</b>	7	0	0

**Motion:** Rep. Tracy

**Seconded:** Rep. Poe