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State of Illinois
COMMISSION ON GOVERNMENT
FORECASTING AND ACCOUNTABILITY
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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. Douglas D. Baker, President, Northern Illinois University

RE: *Report of the Commission's Findings Concerning Northern Illinois University's Issuance of \$14 million - Series 2014 Certificates of Participation*

The Commission met on Wednesday, March 19, 2014, to hear and take action on the proposed issuance of \$14 million of Certificates of Participation (COPs) by Northern Illinois 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.

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

Time Line:

February 14, 2014

Commission Received Request for Hearing

March 19, 2014

CGFA Hearing Held

April 3, 2014

Recommendation Required

Northern Illinois University Certificates of Participation Series 2014

Certificates of Participation Amount	\$14 million
Maturity	2025
Estimated True Interest Cost	3.333%
Estimated Average Annual Debt Service	\$0.6 million FY 2015
	\$1.5 million 2016-2025
Net Present Value Savings from Refunding	\$912,713

Terms of COP

The Series 2014 Certificates of Participation would be sold for up to \$14 million and financed from general revenues of the University. The COPs will be refinancing a Lease Revenue Bond issued by the Illinois Development Finance Authority and an Installment Purchase contract for the purpose of savings. NIU will not need to find new revenue sources to finance the Series 2014 COPs as they will be the same used for the bonds and contract being refunded:

- Approximately \$11,630,000 of the total would be to refinance Lease Revenue Bonds issued for the University by the Illinois Development Finance Authority (IDFA) in 1999 for construction of a building at the Naperville Campus. This building is used for University purposes and leases space to such external organizations as: American Institutes for Research, Illinois Board of Examiners, Regional Development Institute, Rapid Optimization of Commercial Knowledge Program, and State Universities Retirement System Offices. The remaining maturity on the IDFA (now under the purview of the Illinois Finance Authority – IFA) bonds goes through September 1, 2024. The Certificates of Participation would also mature on September 1, 2024.
- The remainder of the total would be to refund \$1,181,562 for the Installment Payment Contract between the Board and Energy Systems Group, LLC, dated June 4, 2010, with an original payoff of July 15, 2025. The original interest rate on this contract is 4.83%. The Certificates of Participation for refunding this contract would mature on September 1, 2025.

The Certificates of Participation will be issued via a negotiated public offering. The University hopes to pay a True Interest Cost of 3.333% for the COPs. The current interest rates on the IDFA 1999 Lease Revenue Bonds range from 4.5% - 5.0%, based on maturity. NIU plans to close the sale in April 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 NIU rated A3, based on Illinois' A3 rating. There are no ratings from other ratings agencies.

Explanation for Use of COPs [from Michael Boisvert, Financial Advisor to NIU, Longhouse Capital Advisors]:

I worked on the Series 1999 Bonds which financed the Naperville campus. Initially NIU had intended to issue its own COPs to finance the campus, much as it had in financing of its Hoffman Estates campus in 1990. However, one thing had changed since 1990 financing. As you know, the COP structure depends on certificating an underlying, long term lease of the facilities by a bond trustee. In the 1990 Hoffman Estates financing, this lease was as long as the 25-year final maturity of the bonds. In 1999, however, the State procurement law had changed and limited the lease to a much shorter 10-year lease with the bond trustee, that is, much shorter than the expected 25-year length of the financing. As a result, the University was seriously concerned about bond market acceptance of such a mismatch of underlying lease and COP final maturity.

Completing the financing through the conduit issuer, the Illinois Development Finance Authority (IDFA, and now the IFA), offered a solution. At that point, Illinois law allowed an intergovernmental lease between NIU and IDFA to go out the full 25 years, something that couldn't be offered in a COP issued by the University itself. The University worked out the structure, issued the bonds through the IDFA and the financing was well-received in the market. While these bonds were called "lease revenue bonds", their security was exactly the same as if the bonds had been done as a COP: annual appropriations with back-up, if needed, from legally available funds including tuition revenues. Ironically, a few years later the procurement law itself changed to allow for longer leases in COP structures, and that law remains in place. Since that time there have been no further issuances using the IDFA (or IFA) conduit structure. So, what the University is really doing now with this refinancing is cutting out the middle man and restoring the lease revenue bonds to the COP structure that would have initially been used, but for the procurement law that was in place at the time. Otherwise, the source of repayment, which has always been "COP-like" will remain the same.

Refinancing:

COPs will fund the two refinancings. The expected COP information is listed below.

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

<u>Sources</u>	Series 2014 Current Refunding of Series 1999 Bonds	Current Refunding of Performance Contract 10A	TOTAL
Bond Proceeds			
Par Amount	11,345,000	1,190,000	12,535,000
Net Premium/OID	490,343	46,521	536,864
Debt Service Funds on Hand	<u>51,110</u>	<u>12,365</u>	<u>63,475</u>
Total Sources	11,886,453	1,248,886	13,135,340
<u>Uses:</u>			
Refunding Escrow Deposits			
Debt Service Funds on Hand	51,110	12,365	63,475
Bond Proceeds	<u>11,630,000</u>	<u>1,217,009</u>	<u>12,847,009</u>
Subtotal Uses	11,681,110	1,229,374	12,910,484
Cost of Issuance	129,762	13,611	143,373
Underwriter's Discount	72,608	7,616	80,224
Additional Proceeds	<u>2,973</u>	<u>-1,714</u>	<u>1,259</u>
Grand Total Uses	11,886,453	1,248,886	13,135,340
<u>Assumptions:</u>			
Type of Issue	COPs	COPs	
Dated & Delivery Date	4/3/2014	4/3/2014	
Maturity Range	9/1/2014 - 9/1/2024	9/1/2014 - 9/1/2025	
True Interest Cost (TIC)	3.325%		3.333%
Debt Service Savings	885,497	52,055	937,553
NPV of Savings @ 4.00%	866,112	45,342	911,454

Payment of COPs

The debt service on the COPs is the same as it was on the existing obligations, funded from general revenues of the University, and is not charged against the State's appropriation to the University.

AGGREGATE DEBT SERVICE				
Northern Illinois University				
Certificates of Participation, Series 2014				
*****Preliminary, As of February 7, 2014*****				
Date	Certificates of Participation, Series 2014 (Current Refunding of Ser 1999 Bonds)	Certificates of Participation, Series 2014 (Current Refunding of Performance Contract 10A)	Aggregate Debt Service	Annual Aggregate D/S
09/01/2014	241,562.22	69,568.89	311,131.11	
03/01/2015	225,800.00	22,800.00	248,600.00	
06/30/2015				559,731.11
09/01/2015	1,165,800.00	112,800.00	1,278,600.00	
03/01/2016	207,000.00	21,000.00	228,000.00	
06/30/2016				1,506,600.00
09/01/2016	1,187,000.00	111,000.00	1,298,000.00	
03/01/2017	187,400.00	19,200.00	206,600.00	
06/30/2017				1,504,600.00
09/01/2017	1,202,400.00	114,200.00	1,316,600.00	
03/01/2018	167,100.00	17,300.00	184,400.00	
06/30/2018				1,501,000.00
09/01/2018	1,227,100.00	117,300.00	1,344,400.00	
03/01/2019	145,900.00	15,300.00	161,200.00	
06/30/2019				1,505,600.00
09/01/2019	1,245,900.00	120,300.00	1,366,200.00	
03/01/2020	123,900.00	13,200.00	137,100.00	
06/30/2020				1,503,300.00
09/01/2020	1,268,900.00	123,200.00	1,392,100.00	
03/01/2021	101,000.00	11,000.00	112,000.00	
06/30/2021				1,504,100.00
09/01/2021	1,291,000.00	126,000.00	1,417,000.00	
03/01/2022	77,200.00	8,700.00	85,900.00	
06/30/2022				1,502,900.00
09/01/2022	1,317,200.00	128,700.00	1,445,900.00	
03/01/2023	52,400.00	6,300.00	58,700.00	
06/30/2023				1,504,600.00
09/01/2023	1,337,400.00	131,300.00	1,468,700.00	
03/01/2024	26,700.00	3,800.00	30,500.00	
06/30/2024				1,499,200.00
09/01/2024	1,361,700.00	128,800.00	1,490,500.00	
03/01/2025		1,300.00	1,300.00	
06/30/2025				1,491,800.00
09/01/2025		66,300.00	66,300.00	
06/30/2026				66,300.00
	14,160,362.22	1,489,368.89	15,649,731.11	15,649,731.11

Current NIU Debt

The State University Certificates of Participation Act places a limit on COP debt service for each of the State universities. Northern Illinois University's COP debt service limit is \$20 million annually. The tables on the following pages show the estimated debt service schedule for bonds and COPs of the University including the requested 2014 COPs.

COP debt service will range from \$1.2 million - \$2.8 million annually from FY 2015 through FY 2017 and \$1.5 million from FY 2018 through FY 2025, and a final amount of \$66,000 in FY 2026.

Debt Service for the University's bonds will be \$17.2 million annually from FY 2015-FY 2029, and range from \$17 million down to \$13 million from FY 2030 through FY 2041. The Federal government's sequestration lowered subsidies for the 2010 Build America Bonds issuance in FY 2013 and FY 2014 by 7.2%.

At the end of FY 2015, COP outstanding principal is expected to be \$15 million including the 2014 issuance. The University's bonds carry an outstanding principal of \$195 million. The FY 1993 COPs and the 1992 bonds will be paid off in FY 2017. The 2011 bonds will be paid off in 2028.

Northern Illinois Univeristy
Worksheet for Certificates of Participation
FY 2014 - prospective

Fiscal Year	COP FY93		COP FY14		Total		Total		P&I
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2015	515,000.00	114,075.00	105,000.00	454,731.11	620,000.00	568,806.11	620	569	1,189
2016	550,000.00	85,320.00	1,030,000.00	476,600.00	1,580,000.00	561,920.00	1,580	562	2,142
2017	1,305,000.00	35,235.00	1,070,000.00	434,600.00	2,375,000.00	469,835.00	2,375	470	2,845
2018	-	-	1,110,000.00	391,000.00	1,110,000.00	391,000.00	1,110	391	1,501
2019	-	-	1,160,000.00	345,600.00	1,160,000.00	345,600.00	1,160	346	1,506
	2,370,000.00	234,630.00	4,475,000.00	2,102,531.11	6,845,000.00	2,337,161.11	6,845	2,338	9,183
2020	-	-	1,205,000.00	298,300.00	1,205,000.00	298,300.00	1,205	298	1,503
2021	-	-	1,255,000.00	249,100.00	1,255,000.00	249,100.00	1,255	249	1,504
2022	-	-	1,305,000.00	197,900.00	1,305,000.00	197,900.00	1,305	198	1,503
2023	-	-	1,360,000.00	144,600.00	1,360,000.00	144,600.00	1,360	145	1,505
2024	-	-	1,410,000.00	89,200.00	1,410,000.00	89,200.00	1,410	89	1,499
	-	-	6,535,000.00	979,100.00	6,535,000.00	979,100.00	6,535	979	7,514
2025	-	-	1,460,000.00	31,800.00	1,460,000.00	31,800.00	1,460	32	1,492
2026	-	-	65,000.00	1,300.00	65,000.00	1,300.00	65	1	66
2027	-	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	-	-	-
2029	-	-	-	-	-	-	-	-	-
	-	-	1,525,000.00	33,100.00	1,525,000.00	33,100.00	1,525	33	1,558
	2,370,000.00	234,630.00	12,535,000.00	3,114,731.11	14,905,000.00	3,349,361.11	14,905	3,350	18,255

Northern Illinois University
Worksheet for Bonds
FY 2014

Fiscal Year	1992 Series Bonds		2010 Series Bonds		2011 Series Bonds		Total		Total Rounded			Annual Debt Service	Interest less Accretion		Rounded
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	P&I		Accretion		
2015	3,612,635.55	117,364.45	-	10,121,576.76	160,000.00	3,178,762.50	3,772,635.55	13,417,703.71	3,773	13,418	17,190	17,190,339.26	13,300,339.26	13,301	
2016	3,387,157.05	342,842.95	-	10,121,576.76	170,000.00	3,173,162.50	3,557,157.05	13,637,582.21	3,557	13,638	17,195	17,194,739.26	13,294,739.26	13,295	
2017	622,886.40	97,113.60	-	10,121,576.76	3,185,000.00	3,166,787.50	3,807,886.40	13,385,477.86	3,808	13,385	17,193	17,193,364.26	13,288,364.26	13,288	
2018	-	-	-	10,121,576.76	4,065,000.00	3,007,537.50	4,065,000.00	13,129,114.26	4,065	13,129	17,194	17,194,114.26	13,129,114.26	13,129	
2019	-	-	-	10,121,576.76	4,265,000.00	2,804,287.50	4,265,000.00	12,925,864.26	4,265	12,926	17,191	17,190,864.26	12,925,864.26	12,926	
	7,622,679.00	557,321.00	-	50,607,883.80	11,845,000.00	15,330,537.50	19,467,679.00	66,495,742.30	19,468	66,496	85,963	85,963,421.30	65,938,421.30	65,939	
2020	-	-	-	10,121,576.76	4,480,000.00	2,591,037.50	4,480,000.00	12,712,614.26	4,480	12,713	17,193	17,192,614.26	12,712,614.26	12,713	
2021	-	-	-	10,121,576.76	4,705,000.00	2,367,037.50	4,705,000.00	12,488,614.26	4,705	12,489	17,194	17,193,614.26	12,488,614.26	12,489	
2022	-	-	-	10,121,576.76	4,960,000.00	2,108,262.50	4,960,000.00	12,229,839.26	4,960	12,230	17,190	17,189,839.26	12,229,839.26	12,230	
2023	-	-	-	10,121,576.76	5,210,000.00	1,860,262.50	5,210,000.00	11,981,839.26	5,210	11,982	17,192	17,191,839.26	11,981,839.26	11,982	
2024	-	-	-	10,121,576.76	5,470,000.00	1,599,762.50	5,470,000.00	11,721,339.26	5,470	11,721	17,191	17,191,339.26	11,721,339.26	11,721	
	-	-	-	50,607,883.80	24,825,000.00	10,526,362.50	24,825,000.00	61,134,246.30	24,825	61,134	85,959	85,959,246.30	61,134,246.30	61,134	
2025	-	-	-	10,121,576.76	5,745,000.00	1,326,262.50	5,745,000.00	11,447,839.26	5,745	11,448	17,193	17,192,839.26	11,447,839.26	11,448	
2026	-	-	-	10,121,576.76	6,060,000.00	1,010,287.50	6,060,000.00	11,131,864.26	6,060	11,132	17,192	17,191,864.26	11,131,864.26	11,132	
2027	-	-	-	10,121,576.76	6,395,000.00	676,967.50	6,395,000.00	10,798,564.26	6,395	10,799	17,194	17,193,564.26	10,798,564.26	10,799	
2028	-	-	230,000.00	10,121,576.76	6,500,000.00	341,250.00	6,730,000.00	10,462,826.76	6,730	10,463	17,193	17,192,826.76	10,462,826.76	10,463	
2029	-	-	7,085,000.00	10,103,758.66	-	-	7,085,000.00	10,103,758.66	7,085	10,104	17,189	17,188,758.66	10,103,758.66	10,104	
	-	-	7,315,000.00	50,590,065.70	24,700,000.00	3,354,787.50	32,015,000.00	53,944,853.20	32,015	53,945	85,960	85,959,853.20	53,944,853.20	53,945	
2030	-	-	7,440,000.00	9,554,883.70	-	-	7,440,000.00	9,554,883.70	7,440	9,555	16,995	16,994,883.70	9,554,883.70	9,555	
2031	-	-	7,815,000.00	8,978,506.90	-	-	7,815,000.00	8,978,506.90	7,815	8,979	16,794	16,793,506.90	8,978,506.90	8,979	
2032	-	-	8,220,000.00	8,357,448.86	-	-	8,220,000.00	8,357,448.86	8,220	8,357	16,577	16,577,448.86	8,357,448.86	8,357	
2033	-	-	8,645,000.00	7,704,205.46	-	-	8,645,000.00	7,704,205.46	8,645	7,704	16,349	16,349,205.46	7,704,205.46	7,704	
2034	-	-	9,090,000.00	7,017,187.30	-	-	9,090,000.00	7,017,187.30	9,090	7,017	16,107	16,107,187.30	7,017,187.30	7,017	
	-	-	41,210,000.00	41,612,232.22	-	-	41,210,000.00	41,612,232.22	41,210	41,612	82,822	82,822,232.22	41,612,232.22	41,612	
2035	-	-	9,560,000.00	6,294,805.00	-	-	9,560,000.00	6,294,805.00	9,560	6,295	15,855	15,854,805.00	6,294,805.00	6,295	
2036	-	-	10,055,000.00	5,535,071.80	-	-	10,055,000.00	5,535,071.80	10,055	5,535	15,590	15,590,071.80	5,535,071.80	5,535	
2037	-	-	10,585,000.00	4,715,890.96	-	-	10,585,000.00	4,715,890.96	10,585	4,716	15,301	15,300,890.96	4,715,890.96	4,716	
2038	-	-	11,150,000.00	3,853,531.00	-	-	11,150,000.00	3,853,531.00	11,150	3,854	15,004	15,003,531.00	3,853,531.00	3,854	
2039	-	-	11,740,000.00	2,945,140.50	-	-	11,740,000.00	2,945,140.50	11,740	2,945	14,685	14,685,140.50	2,945,140.50	2,945	
	-	-	53,090,000.00	23,344,439.26	-	-	53,090,000.00	23,344,439.26	53,090	23,344	76,434	76,434,439.26	23,344,439.26	23,344	
2040	-	-	12,360,000.00	1,988,682.70	-	-	12,360,000.00	1,988,682.70	12,360	1,989	14,349	14,348,682.70	1,988,682.70	1,989	
2041	-	-	12,050,000.00	981,713.50	-	-	12,050,000.00	981,713.50	12,050	982	13,032	13,031,713.50	981,713.50	982	
	-	-	24,410,000.00	2,970,396.20	-	-	24,410,000.00	2,970,396.20	24,410	2,970	27,380	27,380,396.20	2,970,396.20	2,970	
Ltr Yrs	-	-	126,025,000.00	169,125,017.18	49,525,000.00	13,881,150.00	175,550,000.00	183,006,167.18	175,550	183,006	358,556	358,556,167.18	183,006,167.18	183,006	
Total	7,622,679.00 7,623	557,321.00	126,025,000.00 126,025	219,732,900.98	61,370,000.00 61,370	29,211,687.50	195,017,679.00 195,018	249,501,909.48	195,018	249,502	444,520	444,519,588.48	248,944,588.48	248,946	

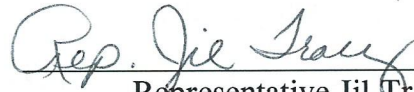
After carefully reviewing the information submitted by Northern Illinois University to issue \$14 million in Certificates of Participation, the Commission voted on March 19, 2014, by a vote of 8-0-0, to favorably recommend the issuance of COPs. A copy of the vote appears on the following page.

Recommendation:

Favorably Recommended



Senator Michael Frerichs
CGFA Co-Chairman



Representative Jil Tracy
CGFA Co-Chairman

DRL:lk
S409

COMMISSION MEMBERS ROLL-CALL

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

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

Motion: Favorably Recommend

<i>Commission Member</i>	<i>MOTION VOTE</i>		
	<i>YES</i>	<i>NO</i>	<i>Present</i>
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)	✓		
Vote	8	0	0

Motion: Sen. Frerichs

Seconded: Sen. Trotter