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**State of Illinois**  
**COMMISSION ON GOVERNMENT**  
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August 18, 2010

## 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  
Tom Cross, Minority Leader of the House of Representatives  
David Vaught, Governor's Office of Management and Budget  
Sharon K. Hahs, President, Northeastern Illinois University

**RE:** Report of the Commission's Findings Concerning Northeastern Illinois University's Issuance of \$6.5 million of Series 2010 Certificates of Participation

The Commission met on Wednesday, August 4, 2010 at 11:00 a.m. to hear and take action on the proposed issuance of \$6.5 million of Certificates of Participation (COPs) by Northeastern Illinois University. The following documentation details background information on the projects to be funded, the Certificates to be issued and the University's debt.

### **BACKGROUND**

**Law:** Under the newly created **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. As part of the Commission's consideration and findings the Commission shall consider the effect the issuance of a certificate of participation 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”. Findings shall be reported by the Commission within 15 days after the hearing. 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.

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

***Time Line:***

<i>Commission Received Request for Hearing</i>	<i>June 28, 2010</i>
<i>Hearing</i>	<i>August 4, 2010</i>
<i>Findings Required</i>	<i>August 19, 2010</i>

***Northeastern Illinois University Certificates of Participation Series 2010***

Certificates of Participation Amount	\$6.5 million
Maturity	18 years
Estimated True Interest Cost	4.0% range
Estimated Net Debt Service	\$68,000-\$673,000

***Terms of COP***

Approximately \$6.5 million in Certificates of Participation would be sold as Build America Bonds with an 18-year maturity. The University would opt to receive the Federal Government’s subsidy on interest. The University hopes to sell shortly after the approval by the Commission in mid-August, and pay a True Interest Cost of around 4.0%. The University, as a receiver of State aid, will have to pay more due to the State’s financial situation.

***Purpose of Projects:***

The University’s Strategic Plan includes goals to enhance University operations and its fiscal strength by reducing reliance on state general funds and tuition. To address these strategic goals, the University decided to reduce energy consumption. In February 2009, the Board approved the competitive process to find an energy services company to contract with for identifying and implementing energy conservation measures. NORESKO was chosen in June 2009 as the University’s energy services company.

The energy audit began in September 2009 and NORESO delivered their energy audit report and findings in March 2010. The audit identified 19 energy conservation measures, which the University and their independent consultant, David Birr (on contract with the Department of Commerce and Economic Opportunity), then evaluated the costs, savings, and the amount of time it would take for the savings to pay for the energy conservation measures. Under the energy performance contract, NORESO will guarantee energy savings with the financial responsibility to make up the difference if the energy savings are not realized. The Board approved the following 11 projects:

#	Project	Reason	Cost
1	Control System Upgrades:	replace multiple Building Automation Systems with one standardized system to improve efficiency	\$2,336,916
2	Lighting Efficiency Upgrades:	replace lamps and ballasts with more efficient ones, modify wiring and install reflectors to reduce the number of lamps and ballasts	\$1,691,613
3	Variable Air Volume at Library:	replace existing air distribution boxes and fan controls to improve the distribution of heat and air conditioning in the building	\$626,577
4	Water Efficiency Upgrades:	replace fixtures and flush valves in many campus buildings to reduce the amount of water used	\$487,719
5	New Condenser Water Pumps and Filtration System:	install new filters and a variable speed motor to improve efficiency of heat evacuation from air conditioning equipment	\$343,280
6	Lech Walesa Hall:	install variable speed motors on main fan units to make the building heating and cooling distribution more economical	\$130,587
7	Replace Existing Control for the Three Hot Water Boilers:	to improve burning efficiency and natural gas usage	\$102,699
8	Building D:	replace existing fan coil and install variable speed fan motors on main fan units to improve distribution of building heating	\$240,407
9	Insulate High Temperature Hot Water Expansion Joints:	to reduce the loss of heat	\$72,055
10	Kitchen Hood Controls:	install new controls in the kitchen hood exhaust fan to reduce energy consumption	\$61,489
11	Physical Education Complex:	install variable speed motor on the swimming pool pump to reduce energy consumption	\$46,671
<b>TOTAL</b>			<b>\$6,140,013</b>

\* efficiency/life expectancy of equipment increased, savings can't be quantified

The University and NORESO have also agreed to a goal of 20% of outside contracts and supplies to be provided by female and minority businesses. NORESO has identified certified minority, female and disabled firms that will be subcontracted as part of this project. Of total subcontracting costs of \$3.45 million, these firms will account for \$1.05 million, 30% of subcontracting costs and 17% of total project costs.

**Financing of the Projects:**

The Board approved the issuance by competitive bid of COPs at its June 2010 meeting, not to exceed \$6.5 million and with a maximum 20 year maturity. The annual rate of the Certificates may not exceed 5.75% if tax-exempt, or 8.5% if taxable.

**The Trustees of Northeastern Illinois University  
Certificates of Participation, Series 2010  
Energy Conservation Project - Build America Program  
Estimated Sources & Uses of Funds**

<b><u>Sources:</u></b>	<b><u>NEIU</u></b> <b><u>Series 2010 COPs</u></b>
Certificate Principal	\$6,105,000.00
Estimated Interest Earnings	4,144.72
Issuer Funds	50,000.00
Utility Incentives & Rebates	229,673.00
Total Sources	<u>\$6,388,817.72</u>
<b><u>Uses:</u></b>	
Energy Conservation Projects	\$6,140,013.00
Capitalized Interest	73,194.36
Underwriter's Discount	61,050.00
Costs of Issuance	110,000.00
Balance/Contingency	4,560.36
Total Uses	<u>\$6,388,817.72</u>
<b><u>Assumptions:</u></b>	
Type of Issue	Fixed Rate Taxable BABs COPs
Dated & Delivery Date	8/11/2010
Maturity Range	10/1/2012 - 2029
First Interest Payment	4/1/2011
Capitalized Interest Period	thru 4/1/2012
Underwriter's Discount (\$ per \$1000)	\$10.00
Taxable True Interest Cost (TIC)	5.9549%
Net True Interest Cost (TIC)	3.9119%
Project Fund Yield	0.2000%
Total D/S (before Gov't Credit)	\$10,523,821
Total Net D/S (after Gov't Credit)	\$8,904,039
Average Annual Net D/S (BY2012-BY2028)	\$513,249
Net Cash Flow Savings	\$1,216,571

**The Trustees of Northeastern Illinois University  
 Certificates of Participation, Series 2010  
 Energy Conservation Project  
 Estimated Annual Net Debt Service & Net Cash Flow**

Bond Year Ending 10/1	Energy Conservation Project Financing			Gov't Credit	Capitalized Interest	Net Total	M&V Service Cost	Combined Net Cost	Total Savings	ECP Net Cash Flow
	Series 2010 COPs									
	Taxable BABs Debt Service									
Principal	Interest	Total								
2010										
2011		387,701	387,701	(135,695)	(73,194)	178,811		178,811	178,811 <sup>1</sup>	-
2012	145,000	340,420	485,420	(119,147)		366,273	17,126	383,399	454,583	71,184
2013	160,000	336,505	496,505	(117,777)		378,728	17,640	396,368	470,457	74,089
2014	180,000	331,465	511,465	(116,013)		395,452	18,169	413,621	486,886	73,265
2015	200,000	324,805	524,805	(113,682)		411,123	18,714	429,837	503,887	74,050
2016	225,000	316,505	541,505	(110,777)		430,728	19,275	450,004	521,485	71,481
2017	250,000	306,268	556,268	(107,194)		449,074	19,854	468,927	539,696	70,769
2018	275,000	294,143	569,143	(102,950)		466,193	20,449	486,642	558,542	71,900
2019	305,000	280,393	585,393	(98,137)		487,255	21,063	508,318	578,049	69,731
2020	335,000	264,533	599,533	(92,586)		506,946	21,694	528,641	598,238	69,597
2021	365,000	246,275	611,275	(86,196)		525,079	22,345	547,424	619,129	71,705
2022	400,000	225,653	625,653	(78,978)		546,674	23,016	569,690	640,752	71,062
2023	435,000	202,253	637,253	(70,788)		566,464	23,706	590,170	663,131	72,961
2024	475,000	176,370	651,370	(61,730)		589,641	24,417	614,058	686,289	72,231
2025	520,000	147,633	667,633	(51,671)		615,961	25,150	641,111	710,257	69,146
2026	565,000	115,653	680,653	(40,478)		640,174	25,904	666,078	735,063	68,985
2027	610,000	80,340	690,340	(28,119)		662,221	26,681	688,902	760,735	71,833
2028	660,000	41,910	701,910	(14,669)		687,242	27,482	714,723	787,305	72,582
	6,105,000	4,418,821	10,523,821	(1,546,587)	(73,194)	8,904,039	372,685	9,276,724	10,493,295	1,216,571

<sup>1</sup> Estimated savings in the initial year of the project.

NOTE: M & V are measurement and verification costs set by NORESKO. This is work the Energy Services Company will do after the energy conservation measures are completed to measure energy reductions and to verify the energy savings.

**Payment of COPs**

The cost of the project is estimated at \$6.1 million plus issuance costs of \$300,000. The debt service will be paid from the savings generated by the energy conservation projects. First year projected savings are \$454,583.

**Current NEIU Debt**

The State University Certificates of Participation Act places a limit on Northeastern Illinois University's COPs of a maximum \$5 million annually in debt service. The table on the following page shows the amount of debt service estimated for the 2010 COPs combined with the debt service of the University's Series 2006 COPs. The combined COP debt service will max out at \$1.8 million in FY 2026, the final year of the 2006 COPs. For the final three years, 2027-2029, the payments will stay under \$674,000.

Current COP outstanding principal is \$18.9 million, while current University Facilities System (UFS) Revenue Bonds outstanding principal is \$29.9 million. Total Debt Service for COPs and UFS Bonds will range from \$1.3 million to \$3.1 million (2026) through 2035.

**The Trustees of Northeastern Illinois University  
 Certificates of Participation, Series 2010  
 Energy Conservation Project - Build America Program  
 Pro Forma Combined Net Debt Service Requirements and Outstanding Principal Amounts**

Bond Year Ending 7/1	Series 2010 COPs - Taxable BABs <sup>1</sup>				Total Net Debt Service	Series 2006 COPs <sup>2</sup>	Net Combined COPs D/S	Outstanding UFS Bonds Net D/S <sup>3,4</sup>	Combined University Annual Net Debt Service
	Principal <sup>2</sup>	Interest	Capitalized Interest	Gov't Interest Credit					
2011		217,491	(73,194)	(76,122)	68,175	1,183,250	1,251,425	860,890	<b>2,112,315</b>
2012		340,420		(119,147)	221,273	1,185,288	1,406,561	865,350	<b>2,271,911</b>
2013	145,000	338,463		(118,462)	365,001	1,185,594	1,550,594	863,880	<b>2,414,474</b>
2014	160,000	333,985		(116,895)	377,090	1,184,106	1,561,197	941,790	<b>2,502,987</b>
2015	180,000	328,135		(114,847)	393,288	1,186,106	1,579,394	939,373	<b>2,518,767</b>
2016	200,000	320,655		(112,229)	408,426	1,182,006	1,590,432	941,453	<b>2,531,885</b>
2017	225,000	311,386		(108,985)	427,401	1,186,222	1,613,623	937,943	<b>2,551,565</b>
2018	250,000	300,205		(105,072)	445,133	1,183,131	1,628,265	1,309,013	<b>2,937,277</b>
2019	275,000	287,268		(100,544)	461,724	1,183,175	1,644,899	1,310,028	<b>2,954,926</b>
2020	305,000	272,463		(95,362)	482,101	1,186,075	1,668,176	1,309,428	<b>2,977,603</b>
2021	335,000	255,404		(89,391)	501,012	1,181,238	1,682,250	1,307,495	<b>2,989,745</b>
2022	365,000	235,964		(82,587)	518,376	1,184,050	1,702,426	1,309,205	<b>3,011,631</b>
2023	400,000	213,953		(74,883)	539,069	1,184,838	1,723,907	1,309,325	<b>3,033,232</b>
2024	435,000	189,311		(66,259)	558,052	1,182,288	1,740,340	1,307,825	<b>3,048,165</b>
2025	475,000	162,001		(56,700)	580,301	1,186,106	1,766,407	1,309,675	<b>3,076,082</b>
2026	520,000	131,643		(46,075)	605,568	1,182,431	1,787,999	1,309,630	<b>3,097,629</b>
2027	565,000	97,996		(34,299)	628,698		628,698	1,307,655	<b>1,936,353</b>
2028	610,000	61,125		(21,394)	649,731		649,731	1,309,158	<b>1,958,889</b>
2029	660,000	20,955		(7,334)	673,621		673,621	1,308,920	<b>1,982,541</b>
2030								1,311,460	<b>1,311,460</b>
2031								1,312,020	<b>1,312,020</b>
2032								1,310,600	<b>1,310,600</b>
2033								1,311,650	<b>1,311,650</b>
2034								1,310,475	<b>1,310,475</b>
2035								1,311,475	<b>1,311,475</b>
	6,105,000	4,418,821	(73,194)		8,904,039	18,945,903	27,849,942	29,925,713	<b>57,775,655</b>
Pro Forma Principal Outstanding <sup>5</sup> :					\$6,105,000	\$13,535,000		\$17,520,000	<b>\$37,160,000</b>

<sup>1</sup> Estimated, subject to change.

<sup>2</sup> Principal comes due on the preceding October 1.

<sup>3</sup> Principal comes due on July 1.

<sup>4</sup> Net of the annual HUD subsidy of \$70,000 on the Series 1973 Bonds.

<sup>5</sup> As of July 1, 2010.

NOTE: Discrepancies in numbers between the two schedules are due to the differences between the measurements on different bond years of the University Facilities System (UFS) Revenue Bonds & COPs

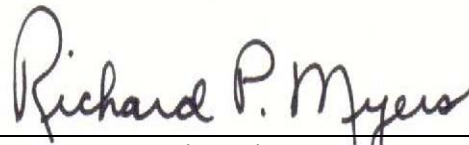
After carefully reviewing the information submitted by Northeastern Illinois University to issue \$6.5 million in Certificates of Participation, the Commission voted on August 4, 2010, by a vote of 8-0-0, to favorably recommend the issuance of the COPs. A copy of the motion and vote tally appears on the following page.

<b><u>Recommendation:</u></b>	<b>Favorably Recommended</b>
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Senator Jeffrey M. Schoenberg  
CGFA Co-Chairman



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Representative Richard P. Myers  
CGFA Co-Chairman

DRL:lk/dkb  
S221 CGFA Findings NEIU COPs

cc: CGFA Commission Members



**MOTION**  
**Northeastern Illinois University Series 2010**  
**Certificates of Participation Issuance**

Pursuant to 110 ILCS 73/15, I make a motion to *favorably recommend* Northeastern Illinois University's issuance of \$6.5 million of Series 2010 Certificates of Participation.

**COMMISSION MEMBERS ROLL-CALL**  
**August 4, 2010 – 11:00 a.m.**  
**Room 16-503 James R. Thompson Center, Chicago, IL**  
**Proposed Northeastern Illinois University Issuance of**  
**Certificates of Participation**

	ATTENDANCE		V O T E		
	Present	Absent	YES	NO	Present
Representative Patricia Bellock (R)	✓		✓		
Senator Bill Brady (R)		✓			
Senator Michael Frerichs (D)		✓			
Representative Kevin McCarthy (D)	✓		✓		
Senator Matt Murphy (R)	✓		✓		
Representative Richard Myers (R)	✓		✓		
Representative Elaine Nekritz (D)	✓		✓		
Representative Raymond Poe (R)	✓		✓		
Representative Al Riley (D)	✓		✓		
Senator Jeffrey Schoenberg (D)		✓			
Senator Dave Syverson (R)		✓			
Senator Donne Trotter (D)	✓		✓		
Attendance / Vote	8	4	8	0	0

MOTION: Sen. Trotter

SECONDY BY: Rep. Nekritz