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State of Illinois
COMMISSION ON GOVERNMENT
FORECASTING AND ACCOUNTABILITY
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January 25, 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
Alvin Goldfarb, President, Western Illinois University

RE: *Report of the Commission's Findings Concerning Western Illinois University's Issuance of \$11.585 million of Series 2010 Certificates of Participation*

The Commission met on Tuesday, January 12, 2010 at 10:00 a.m. to hear and take action on the proposed issuance of \$11.585 million of Certificates of Participation (COPs) by Western Illinois University. The following documentation details background information on the projects to be funded, the Certificates to be issued and the University's debt. Answers received to additional questions from the Commission's meeting are included where appropriate in the following pages.

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.

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

Time Line:

<i>Commission Received Request for Hearing</i>	<i>December 4, 2009</i>
<i>Last Date for Hearing</i>	<i>January 18, 2010</i>
<i>Recommendation Required</i>	<i>February 2, 2010</i>

<i>Western Illinois University Certificates of Participation Series 2010</i>	
Certificates of Participation Amount	\$11.585 million
Maturity	20 years
Net Debt Service	\$830,000 annually

Purpose of Projects:

The Certificates of Participation would be sold to fund approximately \$5 million of heating plant capital improvements, \$5 million of steam line replacements, and \$1.5 million for the reimbursement of the installation of residence hall sprinklers.

The heating plant improvements are planned to ensure continued operational reliability and improve the efficiency of the sole heating source for the campus. Reliability projects include replacing the coal masonry stack, updating the coal handling system, replacing and relocating 80-year-old electrical equipment, recasing and retubing a gas boiler along with several other smaller miscellaneous projects.

Efficiency increasing projects include installing a variable frequency drive and economizer on a gas boiler and installing a boiler blowdown heat recovery system. The current brick coal masonry stack circa 1920's which is located in the heart of campus is currently being held together with metal bands and is in very poor condition. The 1920's electrical switchgear also needs to be replaced and relocated since it is not only obsolete but located with steam lines overhead.

The University has experienced serious, multiple breaks in aging steam lines requiring parking lots to be torn up and buildings without heating and cooling. Phase I was to install new steam lines serving approximately 1.5 million square feet of space including four academic buildings and six residence halls. This phase included approximately 1500 linear feet of walk and shallow tunnels to replace the original direct buried steam lines that are fifteen years beyond their life expectancy.

Western Illinois University has not received any capital renewal from the State of Illinois since FY04 which now totals a loss of approximately \$7.0 million that would have been spent on heating plant and steam line upgrades. It is further uncertain when the approved FY10 capital renewal increment of \$3.5 million will be released to the University due to the dire economic conditions found in the state.

A critical point has been reached where Western Illinois University must ensure that there is dependable heating and cooling in our residence halls and academic and administrative buildings. Lack of cooling in the summer months can be tremendously uncomfortable but there is no way in the winter months that residents can reside in the halls or employees can work or teach in buildings that do not have heat. When the state mandated sprinkler installation in student housing, The University established the Facilities Enhancement and Life Safety Fee to fund the installation of the sprinkler systems.

Sprinkling Project					
Phase 1	Planning	Conting.	Construction	Sub Total	TOTALS
Bay Hen	\$192,200	\$43,859	\$672,700	\$908,759	
Corb olson	\$177,500	\$12,342	\$1,018,549	\$1,208,391	
Linc/Wash	\$165,900	\$38,113	\$753,651	\$957,664	
Thompson	\$192,300	\$51,171	\$523,679	\$767,150	
					\$3,841,964
Phase 2					
Tanner	\$175,487	\$50,000	\$871,090	\$1,096,577	
Thompson	\$0	\$0	\$404,000	\$404,000	
					\$1,500,577
Total				\$5,342,541	\$5,342,541

Certificates of Participation were issued in November 2005 to pay for Phase I of the sprinkler projects. Because the Phase I projects were completed for less than original estimates, only \$1.5 million in additional funds were needed for Phase II. Since \$1.5 million is too small an amount to warrant a tax exempt financing, the University signed a reimbursement resolution and completed the Phase II sprinkler projects with available local funds. Those local funds will be reimbursed with proceeds from the 2010 Certificates of Participation. A copy of the Reimbursement Resolution is on the following page. The Facilities Enhancement and Life Safety Fee will be utilized to pay the debt service on both the 2005 and 2010 Certificates of Participation.

DECLARATION OF OFFICIAL INTENT

I, Jacqueline K. Thompson, being an authorized representative of the Board of Trustees of Western Illinois University (the "Board"), hereby declare as follows:

(i) the Board reasonably expects to reimburse itself for the capital expenditures set forth in *Exhibit A* hereto (the "Expenditures") with the proceeds of tax exempt financing to be incurred on behalf of the Board;

(ii) the costs represented by the Expenditures have been or will be paid no earlier than 60 days prior to the date of this declaration; and

(iii) the maximum principal amount of such tax exempt borrowings to be issued for the Expenditures is \$2,100,000.

Dated: June 16, 2008

By: _____

Jacqueline Thompson
Title: Vice President for Administrative
Services of the University and Treasurer of
the Board

Financing of Projects:

Western Illinois University would use their financing capacity to borrow at relatively low long-term fixed interest rates through the taxable Build America Bond program (net of a 35% direct interest subsidy), as provided through the American Recovery and Reinvestment Act of 2009 (the “ARRA”) to state and local governments, including public universities, during 2009 and 2010. The University will use the recently passed State University Certificates of Participation Act [110 ILCS 73] to finance the 2010 Project over 20 years, a time period more in line with the useful life of the facilities being financed.

Estimated Sources and Uses

**The Trustees of Western Illinois University
Certificates of Participation, Series 2010
Steam Line, Heating Plant, and Sprinkler Projects
Estimated Sources and Uses of Funds**

Sources:

	<u>WIU</u> <u>Series 2010</u>
Certificate Principal	\$11,585,000.00
Estimated Interest Earnings	112,012.28
Total Sources	<u>\$11,697,012.28</u>

Uses:

Steam Line Project	\$5,000,000.00
Heating Plant Project	5,000,000.00
Sprinkler Reimbursement Project	1,500,000.00
Underwriter's Discount	86,887.50
Costs of Issuance	110,000.00
Balance/Contingency	124.78
Total Uses	<u>\$11,697,012.28</u>

Estimated Annual Debt Service

The Trustees of Western Illinois University
 Certificates of Participation, Series 2010
 Steam Line, Heating Plant, and Sprinkler Projects
 Estimated Annual Debt Service

Fiscal Year Ending 6/30	Series 2010				Federal Government Interest Credit	Net Total Debt Service
	Principal ¹	Rate	Interest	Total		
2010				-		-
2011	385,000	2.400%	688,651.78	1,073,651.78	(241,028.12)	832,623.66
2012	435,000	2.850%	611,641.25	1,046,641.25	(214,074.44)	832,566.81
2013	445,000	3.350%	597,988.75	1,042,988.75	(209,296.07)	833,692.68
2014	455,000	3.800%	581,890.00	1,036,890.00	(203,661.51)	833,228.49
2015	465,000	4.200%	563,480.00	1,028,480.00	(197,218.01)	831,261.99
2016	480,000	4.600%	542,675.00	1,022,675.00	(189,936.26)	832,738.74
2017	495,000	4.850%	519,631.25	1,014,631.25	(181,870.94)	832,760.31
2018	510,000	5.150%	494,495.00	1,004,495.00	(173,073.25)	831,421.75
2019	530,000	5.400%	467,052.50	997,052.50	(163,468.38)	833,584.12
2020	550,000	5.600%	437,342.50	987,342.50	(153,069.88)	834,272.62
2021	570,000	5.750%	405,555.00	975,555.00	(141,944.25)	833,610.75
2022	590,000	5.850%	371,910.00	961,910.00	(130,168.50)	831,741.50
2023	615,000	5.950%	336,356.25	951,356.25	(117,724.69)	833,631.56
2024	640,000	6.050%	298,700.00	938,700.00	(104,545.00)	834,155.00
2025	665,000	6.150%	258,891.25	923,891.25	(90,611.94)	833,279.31
2026	690,000	6.350%	216,535.00	906,535.00	(75,787.25)	830,747.75
2027	720,000	6.350%	171,767.50	891,767.50	(60,118.62)	831,648.88
2028	750,000	6.350%	125,095.00	875,095.00	(43,783.25)	831,311.75
2029	780,000	6.350%	76,517.50	856,517.50	(26,781.13)	829,736.37
2030	815,000	6.350%	25,876.25	840,876.25	(9,056.69)	831,819.56
	11,585,000		7,792,051.78	19,377,051.78	(2,727,218.18)	16,649,833.60

¹ Principal comes due on the preceding October 1.

Interest rates in the above table are based on the rates available in December 2009 at the time of this proposal and would equate to a 3.92% True Interest Cost.

Payment of COPs

The University assesses a Facilities Enhancement and Life Safety Fee which will be used to pay debt service. Board of Trustees approval was given on Friday, December 18, 2009. The following pages show the Student Fee Resolution to increase the fees and the University's debt service and Estimated Fee Revenues from the Fee. Fees are locked in for four year terms due to the Truth in Tuition law, which states that students be given the same level of tuition for all four years of enrollment. Western Illinois University also applies this law to their room, board and fees. In the schedule on the following page, the FY 2010 through FY 2013 Facilities Enhancement and Life Safety Fee revenues are lower because they are based partly on an older fee rate that cycles out based on the number of freshman through seniors under the older rates combined with students under the newer rate. The old rate will have completed its cycle in FY 2013. FY 2014 and on shows the new rate applied to all students combined with the University's reserve funds to pay the debt service.

SGA Resolution 2004-2005.x

WHEREAS, the State of Illinois has enacted House Bill 4361 which states in Section 10, "Fire sprinkler systems required. Subject to the establishment of a fire sprinkler dormitory revolving loan program under Section 15 of this Act, fire sprinkler systems are required in the dormitories of all post-secondary educational institutions by 2013. This includes current structures as well as newly constructed dormitories." and

WHEREAS, the State of Illinois failed to allocate funds for the fire sprinkler dormitory revolving loan program under Section 15, and

WHEREAS, in order to comply with the unfunded mandate, Western Illinois University must seek alternative sources of revenue, and

WHEREAS, the administration has proposed that a Facilities Enhancement and Life Safety Fee be added to the current programs funded by student fees, and

WHEREAS, a Facilities Enhancement and Life Safety Fee would enable Western Illinois University to comply with the laws of the State of Illinois

THEREFORE BE IT RESOLVED BY THE SENATE HERE ASSEMBLED:

THAT, the Student Government Association of Western Illinois University approve the addition of the Facilities Enhancement and Life Safety Fee, and

THAT, the Facilities Enhancement and Life Safety Fee for the FY06 fiscal year be \$7.00 per semester hour, based on the average of 15 semester hours.

Authors: Jamie Christianson, Chair SFC
Jessica Singh, Vice Chair SFC
Adam Ton, IBHE/SAC Representative
Ryan McMillan, BOT Representative

Sponsors: Kyle McNeely, Thompson Hall Senator
Ian Blanchard, Corbin/Olson Hall Senator
Jose Marroquin, LASO Senator
Aaron Stoecker, Tanner Hall Senator
Deanna Kano, PRIDE Senator

The Board of Trustees of Western Illinois University
 Certificates of Participation, Series 2010
 Facilities Enhancement and Life Safety Fee Funds
 Estimated Revenue Stream for Repayment

Fiscal Year Ending	COPS	AFS	COPS	Combined Net Debt Service	Estimated Fee Revenues ⁴	Annual Excess Revenues
	Series 2005 Debt Service ¹	Series 2006 Debt Service ²	Series 2010 Estimated Net Debt Service ³			
6/30/2010	713,463	557,388		1,270,850	2,486,400	1,215,550
6/30/2011	710,546	562,938	832,624	2,106,107	2,725,400	619,293
6/30/2012	711,621	557,250	832,567	2,101,438	2,939,000	837,562
6/30/2013	706,749	561,375	833,693	2,101,817	3,027,500	925,683
6/30/2014	710,796	559,175	833,228	2,103,200	3,036,500	933,300
6/30/2015	708,789	556,575	831,262	2,096,626	3,036,500	939,874
6/30/2016	710,744	558,575	832,739	2,102,058	3,036,500	934,443
6/30/2017	706,641	559,975	832,760	2,099,377	3,036,500	937,123
6/30/2018	706,570	560,775	831,422	2,098,767	3,036,500	937,733
6/30/2019	710,299	555,975	833,584	2,099,858	3,036,500	936,642
6/30/2020	707,806	560,775	834,273	2,102,854	3,036,500	933,646
6/30/2021	709,138	559,275	833,611	2,102,024	3,036,500	934,476
6/30/2022	704,348	561,638	831,742	2,097,727	3,036,500	938,773
6/30/2023	708,236	558,150	833,632	2,100,018	3,036,500	936,482
6/30/2024	710,488	559,025	834,155	2,103,668	3,036,500	932,832
6/30/2025	711,238	558,463	833,279	2,102,979	3,036,500	933,521
6/30/2026	710,638	557,025	830,748	2,098,410	3,036,500	938,090
6/30/2027		559,075	831,649	1,390,724	3,036,500	1,645,776
6/30/2028			831,312	831,312	3,036,500	2,205,188
6/30/2029			829,736	829,736	3,036,500	2,206,764
6/30/2030			831,820	831,820	3,036,500	2,204,680
	12,058,109	10,063,425	16,649,834	38,771,368	62,798,800	

¹ Includes debt service on the Multicultural Center and Stadium Renovation projects only.

² Includes debt service on the Student Recreation Center and sprinkler system projects only.

³ Estimated debt service on Series 2010, net of Federal subsidy.

⁴ Facilities Enhancement and Life Safety Fee revenues. Estimates are based on current enrollment and current fee levels.

Estimated Combined Annual Debt Service

The Trustees of Western Illinois University
 Certificates of Participation, Series 2010
 Steam Line, Heating Plant, and Sprinkler Projects
 Estimated Combined Annual Debt Service Requirements Following Issuance

Fiscal Year Ending 6/30	Series 2010 Certificates of Participation Taxable BAB Debt Service			Outstanding Certificates Series 2005 ¹	Combined COP Debt Service	Federal Government Interest Credit	Net Combined COP Debt Service	Outstanding AFS Revenue Bond D/S ²	Combined University Annual Net Debt Service
	Principal ¹	Interest	Total						
	2010	-	-						
2011	385,000	688,652	1,073,652	825,173	1,898,824	(241,028)	1,657,796	5,652,834	7,310,630
2012	435,000	611,641	1,046,641	824,035	1,870,676	(214,074)	1,656,602	4,126,040	5,782,642
2013	445,000	597,989	1,042,989	821,779	1,864,768	(209,296)	1,655,471	4,127,103	5,782,574
2014	455,000	581,890	1,036,890	823,266	1,860,156	(203,662)	1,656,495	4,121,820	5,778,315
2015	465,000	563,480	1,028,480	823,541	1,852,021	(197,218)	1,654,803	4,119,163	5,773,966
2016	480,000	542,675	1,022,675	822,626	1,845,301	(189,936)	1,655,365	4,111,193	5,766,558
2017	495,000	519,631	1,014,631	820,496	1,835,128	(181,871)	1,653,257	2,982,483	4,635,739
2018	510,000	494,495	1,004,495	822,150	1,826,645	(173,073)	1,653,572	2,987,603	4,641,174
2019	530,000	467,053	997,053	822,459	1,819,511	(163,468)	1,656,043	2,983,003	4,639,045
2020	550,000	437,343	987,343	821,398	1,808,740	(153,070)	1,655,670	2,988,888	4,644,558
2021	570,000	405,555	975,555	823,912	1,799,467	(141,944)	1,657,523	2,301,213	3,958,735
2022	590,000	371,910	961,910	820,063	1,781,973	(130,169)	1,651,804	2,306,438	3,958,242
2023	615,000	336,356	951,356	824,636	1,775,993	(117,725)	1,658,268	1,287,250	2,945,518
2024	640,000	298,700	938,700	822,413	1,761,113	(104,545)	1,656,568	1,289,650	2,946,218
2025	665,000	258,891	923,891	823,550	1,747,441	(90,612)	1,656,829	558,463	2,215,292
2026	690,000	216,535	906,535	823,113	1,729,648	(75,787)	1,653,860	557,025	2,210,885
2027	720,000	171,768	891,768		891,768	(60,119)	831,649	559,075	1,390,724
2028	750,000	125,095	875,095		875,095	(43,783)	831,312		831,312
2029	780,000	76,518	856,518		856,518	(26,781)	829,736		829,736
2030	815,000	25,876	840,876		840,876	(9,057)	831,820		831,820
	11,585,000	7,792,052	19,377,052	13,989,733	33,366,785	(2,727,218)	30,639,567	52,711,798	83,351,364
Pro Forma Principal Outstanding:		11,585,000		9,475,000				40,355,000	61,415,000

¹ Principal comes due on the preceding October 1.

² Principal comes due on the preceding April 1.

Debt Service Coverage Ratio

**The Trustees of Western Illinois University
Certificates of Participation, Series 2010
Steam Line, Heating Plant, and Sprinkler Projects
Calculation of Debt Service Coverage Ratio on All University Debt**

Revenue Available for Debt Service (for FY2009):	FY2009 ¹
Net Income from All Operations (before capital contributions)	\$3,400,385
Add Back Depreciation Expense	10,254,593
Add Back Interest on Capital Asset-Related Debt	1,551,478
Net Income Available for Debt Service	\$15,206,456
Pro Forma Maximum Annual Debt Service (in FY2011):	
Annual Debt Service on Outstanding COPs	\$825,173
Projected Annual Net Debt Service on Series 2010 COPs ²	832,624
Annual Debt Service on Outstanding AFS Revenue Bonds	5,652,834
Estimated Maximum Annual Debt Service on All WIU Debt	\$7,310,630
Debt Service Coverage Ratio of All University Debt	2.080x

¹ FY2009 Financial Statements have not been audited.

² Net of 35% Federal interest subsidy.

Current WIU Debt

The State University Certificates of Participation Act places a limit on Western Illinois University's COPs of a maximum \$10 million annually in debt service.

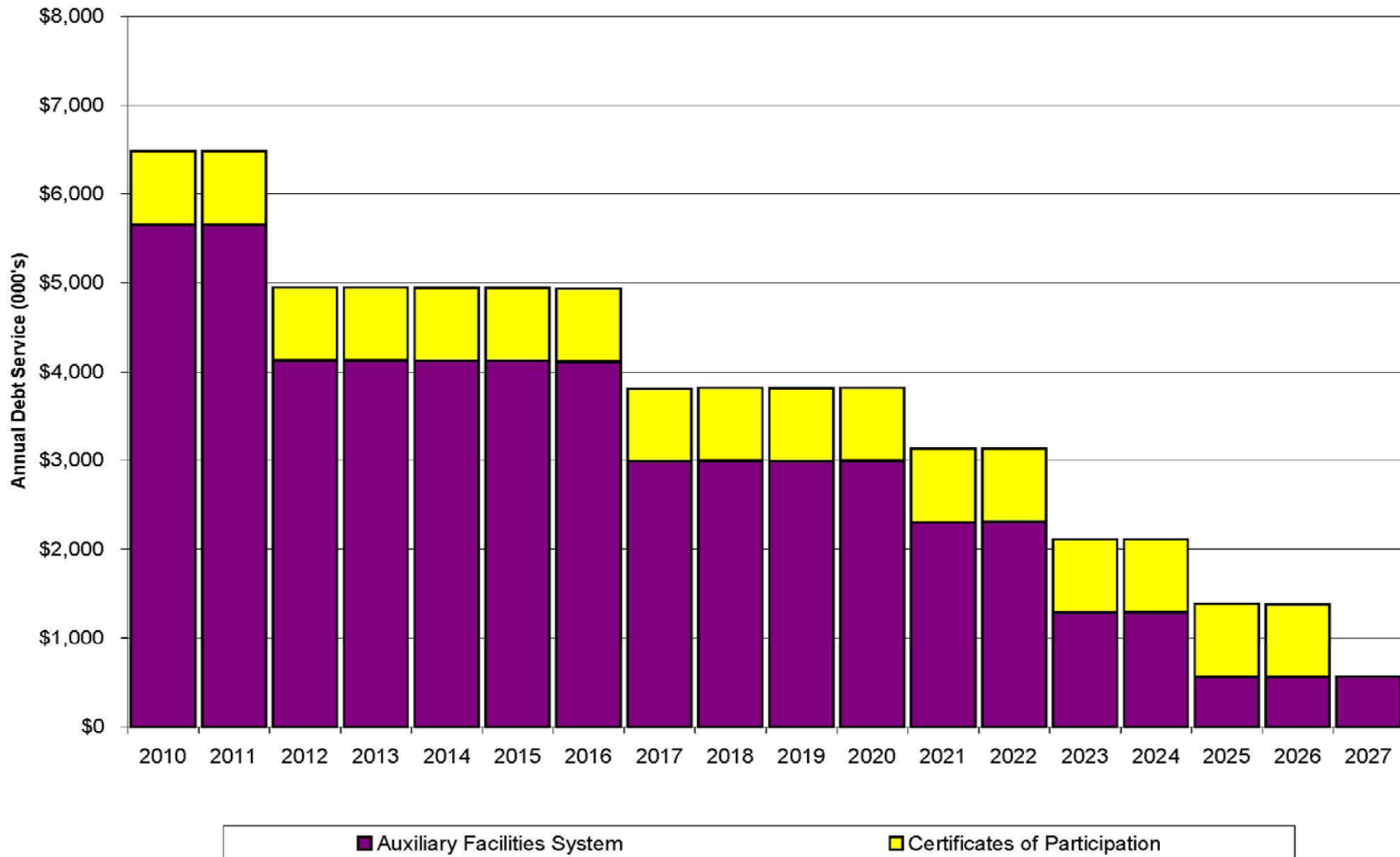
COP debt service in FY 2010 is \$825,000 for COPs Series 2005, which will be paid off in 2026.

COP Series 2010's estimated debt service will be approximately \$830,000 to \$834,000 annually through 2030. These amounts, when combined with the current COP debt service mentioned above, will stay under the \$10 million limit for the life of the COPs.

COP outstanding principal as of December 1, 2009 is \$9.5 million, while current Auxiliary Facilities System Revenue Bond outstanding principal is \$40.4 million.

D/S Graph

The Board of Trustees of Western Illinois University
Combined Outstanding Annual Debt Service
By Issue Type



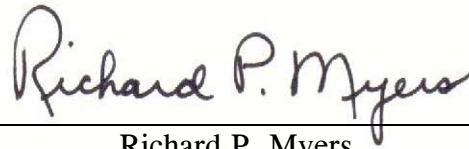
After carefully reviewing the information submitted by Western Illinois University to issue \$11.585 million in Certificates of Participation, the Commission voted on January 12, 2010, by a vote of 9-0-0, to favorably recommend the issuance of the COPs. A copy of the motion and vote tally appears on the following page.

Recommendation:

Favorably Recommended



Senator Jeffrey M. Schoenberg
CGFA Co-Chairman



Richard P. Myers
CGFA Co-Chairman

DRL:lk
S193

**Western Illinois University Series 2010
Certificates of Participation Issuance**

Pursuant to 110 ILCS 73/15, I make a motion to *favorably recommend* Western Illinois University's issuance of \$11.585 million of Series 2010 Certificates of Participation.

COMMISSION MEMBERS ROLL-CALL
January 12, 2010 – 10:00 a.m.
Room 400, State House; Springfield, IL
*Proposed Western 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	9	3	9	-	-

MOTION: Senator Syverson

SECONDY BY: Rep. Riley