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**State of Illinois**  
**COMMISSION ON GOVERNMENT**  
**FORECASTING AND ACCOUNTABILITY**  
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Laurie Eby

December 3, 2013

**MEMORAUNDUM**

**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  
Glenn Poshard, President, Southern Illinois University

**RE:** *Report of the Commission's Findings Concerning Southern Illinois University's Issuance of \$46 million of Series 2014A Certificates of Participation*

The Commission met on Tuesday, November 5, 2013 to hear and take action on the proposed issuance of \$46 million of Certificates of Participation (COPs) by Southern 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 **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.

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

***Time Line:***

*October 4, 2013*  
*November 5, 2013*  
*December 3, 2013*

*Commission Received Request for Hearing*  
*CGFA Hearing held*  
*Recommendation Required*

<b><i>Southern Illinois University Certificates of Participation Series 2014A</i></b>	
Certificates of Participation Amount	\$46 million
Maturity	2034
Estimated True Interest Cost	4.281% averaged
Estimated Average Annual Debt Service	\$4.1 million through 2024
	\$2.4 million 2025-2034

### **Terms of COP**

The Series 2014A Certificates of Participation would be sold for up to \$46 million. Approximately \$30 million of the total would be for new project funding with a 20-year maturity, approximately \$28 million of which would be tax-exempt and \$2 million taxable. The remainder of the total would be for up to \$16 million in refunding Certificates of Participation to refinance a 2004A COP issuance with a 10-year maturity.

The University hopes to pay a True Interest Cost (TIC) of around 4.525% for the new project COPs and 3.386% for the refunding COPs, or an averaged TIC of 4.281%. The current interest rates on the 2004A COPs range from 4.25% to 5.00%, based on maturity. SIU plans to close the sale in February 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 SIU rated A3, based on Illinois' A3 rating. Standard & Poor's rates SIU at A+ and the State at A-.

### **Purpose of Projects:**

Southern Illinois University would like to finance the Carbondale Deferred Maintenance Project. The Project plan includes renovation and reassignment of space in Pulliam Hall; renovation and retrofitting of Quigley Hall for the School of Architecture; renovations to several academic and administrative facilities, including the replacement of HVAC systems, renovation of mechanical, electrical and plumbing, and replacement of roofs, windows and doors; and campus infrastructure improvements. Completion dates for projects range from June 2014 through January of 2017.

## Southern Illinois University

Series 2014 COPS

Building	Project Description	Board Approval	Approved Budget *
Pulliam Hall	Decommission swimming pool, install new floor, add new level in gymnasium area, and construct new studio, classrooms and faculty offices, upgrade MEP.	5/10/2012	\$ 7,000,000
Pulliam Hall	Increase project scope to include windows & roof	11/8/2012	\$ 1,250,000
Parkinson Lab	Replace HVAC	7/12/2012	\$ 4,300,000
Faner Hall	Replace HVAC	7/12/2012	\$ 2,200,000
Neckers Building	Replace HVAC	7/12/2012	\$ 1,500,000
Woody Hall	Renovation of Mechanical, Electrical, & Plumbing (MEP)	7/12/2012	\$ 5,000,000
Roof Replacement		7/12/2012	\$ 2,000,000
- Wham	Replace roof		
- Pulliam/Wham Breeze	Replace roof		
- Rehn Hall	Replace roof		
-Life Sciences II	Replace roof		
- Studio Arts	Replace roof		
Campus Lighting	exterior and roadway lighting across main campus	7/12/2012	\$ 1,000,000
Steam Tunnel Repairs	structural improvements and replacement of pipe stanchions, expansion joints and steam specialties for 8 miles of underground reinforced concrete tunnels used for utility distribution to most of the central campus buildings	7/12/2012	\$ 1,000,000
Lawson Hall	Window and Door replacements	7/12/2012	\$ 1,000,000
Electrical Distribution System	replace electrical feeders and associated equipment in the campus electrical distribution system. Includes purchase of 12.5kV source for installation at the east campus substation.	9/13/2012	\$ 5,000,000
Quigley Hall (newly added)	renovation of Quigley Hall to retrofit vacant space to meet the needs of the School of Architecture.	11/14/2013 (pending)	\$ 1,200,000
<b>TOTAL</b>			<b>\$ 32,450,000</b>

\* No more than \$30 million will be financed with COPS.

The total Project's estimated cost is \$32,450,000, with no more than \$30 million coming from the issuance of COPs, and the remainder coming from University fees. The Project will be administered by the University, not by the Illinois Capital Development Board. The Board of Trustees approved all but one project at various Board Meetings from May 2012 through November 2012. Renovations at Quigley Hall for \$1.2 million were a late addition to the list of projects. The Quigley Hall renovations as well as the request to issue COPs were submitted to the Board at their November 14, 2013 meeting and approved.

**Financing of the Projects:**

COPs will fund the majority of the new projects. The expected COP information is listed below. Approximately \$2 - \$3 million of new projects will be paid from University Funds (the Facilities Maintenance Fee).

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

<u>Sources</u>	<u>New Project</u>	<u>Series 2014A Series 2004A Refunding</u>	<u>TOTAL</u>
Bond Principal	\$30,290,000.00	\$14,110,000.00	\$44,400,000.00

**Uses:**

Project Fund	\$30,000,000.00		\$30,000,000.00
Series 2004A Refunding		\$13,990,000.00	13,990,000.00
Underwriter's Discount	116,344.59	40,445.41	156,790.00
Costs of Issuance	170,551.80	79,448.20	250,000.00
Refunding/Contingency	<u>3,103.61</u>	<u>106.39</u>	<u>3,210.00</u>
Total Uses	\$30,290,000.00	\$14,110,000.00	\$44,400,000.00

**Assumptions:**

Type of Issue	COPs	COPs	
Dated & Delivery Date	2/13/2014	2/13/2014	2/13/2014
Maturity Range	2/15/15 - 2/15/34	2/15/15 - 2/15/24	
Underwriter's Discount	\$3.84 / \$1,000	\$2.87 / \$1,000	\$3.53 / \$1,000
Bond Yield	-	-	4.236%
True Interest Cost (TIC)	4.525%	3.386%	4.281%

Principal Refunded	\$13,990,000
Debt Service Savings	\$1,207,440
NPV of Savings @ 4.00%	\$988,208
% Savings	7.06%

	FY 2015 -	2.78
Proforma Debt Service Coverage Ratio of New Project Money	FY 2016 -	2.85
	FY 2017 -	2.93

Note: 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 the Facilities Maintenance Fee.

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

Fiscal Year	Principal	Coupon	Interest	Total
6/30/2014				
6/30/2015	2,515,000.00	0.90%	1,608,974.36	4,123,974.36
6/30/2016	2,365,000.00	1.35%	1,577,450.00	3,942,450.00
6/30/2017	2,405,000.00	1.80%	1,545,522.50	3,950,522.50
6/30/2018	2,445,000.00	2.35%	1,502,232.50	3,947,232.50
6/30/2019	2,495,000.00	2.70%	1,444,775.00	3,939,775.00
6/30/2020	2,570,000.00	3.00%	1,377,410.00	3,947,410.00
6/30/2021	2,645,000.00	3.35%	1,300,310.00	3,945,310.00
6/30/2022	2,730,000.00	3.60%	1,211,702.50	3,941,702.50
6/30/2023	2,830,000.00	3.85%	1,113,422.50	3,943,422.50
6/30/2024	2,940,000.00	4.00%	1,004,467.50	3,944,467.50
6/30/2025	1,495,000.00	4.20%	886,867.50	2,381,867.50
6/30/2026	1,560,000.00	4.40%	824,077.50	2,384,077.50
6/30/2027	1,630,000.00	4.50%	755,437.50	2,385,437.50
6/30/2028	1,700,000.00	4.65%	682,087.50	2,382,087.50
6/30/2029	1,780,000.00	4.75%	603,037.50	2,383,037.50
6/30/2030	1,865,000.00	4.90%	518,487.50	2,383,487.50
6/30/2031	1,955,000.00	4.95%	427,102.50	2,382,102.50
6/30/2032	2,055,000.00	5.05%	330,330.00	2,385,330.00
6/30/2033	2,155,000.00	5.10%	226,552.50	2,381,552.50
6/30/2034	2,265,000.00	5.15%	116,647.50	2,381,647.50
	44,400,000.00		19,056,894.36	63,456,894.36

## FACILITIES MAINTENANCE FEE - SIUC

Comparative Statement of Actual and Estimated  
Income and Expense

Fee Rate per Credit Hour*		\$17.00	\$17.50	\$18.09	\$18.50	\$19.00	\$19.50	\$20.00
Percent Change		3.03%	2.94%	3.37%	2%	3%	3%	3%
Beginning Cash								
		<b>FY11 Actual</b>	<b>FY12 Actual</b>	<b>FY13 Actual</b>	<b>FY14 BUDGET</b>	<b>FY15 Projected</b>	<b>FY16 Projected</b>	<b>FY17 Projected</b>
<u>Revenues</u>								
Facilities Maintenance Fee - Cash Basis		6,351,039.54	6,505,244.62	\$6,198,730.92	\$6,450,000.00	\$6,624,331.00	\$6,798,655.50	\$6,972,980.00
Interest Income		39,663.70	38,461.59	38,360.25	20,000.00	23,000.00	25,000.00	25,000.00
Total Revenues		6,390,703.24	6,543,706.21	6,237,091.17	6,470,000.00	6,647,331.00	6,823,655.50	6,997,980.00
Category#	<u>Expenditures Category</u>							
1	Campus Roofs	410,121.68	215,109.70	1,459,026.30	804,690.40	150,000.00	150,000.00	150,000.00
2	Power Plant & Distribution Systems	1,181,828.12	988,684.93	849,504.59	954,260.67	252,200.00	862,375.00	1,218,450.00
3	Academic / Classroom / Lab Upgrades	2,496,939.54	1,271,616.10	2,108,840.44	2,936,390.24	1,216,500.00	721,060.00	450,000.00
4	HVAC - General Campus	688,106.93	448,979.19	1,825,564.71	1,524,644.22	1,237,703.00	450,000.00	721,060.00
5	Small Deferred Maintenance Projects	680,757.98	991,516.62	952,509.22	1,232,699.54	1,400,000.00	1,021,064.00	1,902,630.00
6	Expenditures to be reimbursed with COPs			2,045,352.22	2,339,011.61			
7	Debt Service payment <1>	-	-	-		2,385,812.00	2,383,530.00	2,382,398.00
Total Expenditures		5,457,754.25	3,915,906.54	9,240,797.48	9,791,696.68	6,642,215.00	5,588,029.00	6,824,538.00
Change in Cash Balance		932,948.99	2,627,799.67	(3,003,706.31)	(3,321,696.68)	5,116.00	1,235,626.50	173,442.00
Reimbursement from COPs		-	-	-	4,384,363.83	-	-	-
Yr End Accrual Adjustment		-	(808,390.03)	-	-	-	-	-
Beginning Cash		2,168,940.30	3,101,889.29	4,921,298.93	1,917,592.62	2,980,259.77	2,985,375.77	4,221,002.27
Ending Cash		3,101,889.29	4,921,298.93	1,917,592.62	2,980,259.77	2,985,375.77	4,221,002.27	4,394,444.27
%								
% of Ending Cash to Total Expenditures		56.8%	125.7%	20.8%	30.4%	44.9%	75.5%	64.4%

**Footnotes:**

<1> In FY 2014 COPS will be issued for \$30 million which will create costs for Debt Service Repayment.

### *Current SIU Debt*

The State University Certificates of Participation Act places a limit on COP debt service for each of the State universities. Southern Illinois University's COP debt service limit is \$20 million annually. The table on the following page shows the amount of debt service estimated for the last 2004A COP payment before the refunding would begin, and for the new 2014A COPs with the refunding included. COP debt service will remain around \$4 million annually from FY 2015 through FY 2024 when the refunding of the 2004A COPs will be paid off. The remaining 10 years of the 2014A COPs will be approximately \$2.4 million annually.

As of the end of FY 2013, COP outstanding principal is \$15.8 million, while the University's bonds carry an outstanding principal of \$245.8 million. Total Debt Service for COPs and Bonds will range from \$31.8 million to \$2.6 million through FY 2036. Medical Facility bonds will be paid off in FY 2026 and COPs, including Series 2014A, would be paid off in FY 2034.

As noted in the table on the following page, there is a diminishment of funding from the Federal Government on the interest credits due the University for its sale of Build America Bonds and Qualified Energy Conservation Bonds due to sequestration.

### *University Financials*

From the FY 2012 Financial Audit, the University had a net income of \$96.2 million after including both operating and non-operating revenues, and operating and non-operating expenses. Net assets at the end of FY 2012 were \$724.6 million.



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

Fiscal Year	Certificates of Participation *			HAFS** System	Medical Facilities System	Combined University Total	<b>NOTE 1</b> Series 2009A Government Interest Credit	<b>NOTE 2</b> Series 2012B-2 Government Interest Credit	Net Combined University Total
	Series 2004A	Series 2014A	Total						
6/30/2014	2,493,850		2,493,850	26,535,010	1,765,250	30,794,110	(924,350)	(157,731)	29,712,029
6/30/2015		4,123,974	4,123,974	26,920,816	1,792,113	32,836,903	(897,262)	(157,731)	31,781,910
6/30/2016		3,942,450	3,942,450	26,845,435	1,816,000	32,603,885	(865,716)	(157,731)	31,580,438
6/30/2017		3,950,523	3,950,523	25,445,438	1,843,250	31,239,210	(829,965)	(157,731)	30,251,514
6/30/2018		3,947,233	3,947,233	26,748,393	1,871,250	32,566,875	(791,157)	(157,731)	31,617,987
6/30/2019		3,939,775	3,939,775	24,146,990	1,899,750	29,986,515	(749,419)	(157,731)	29,079,365
6/30/2020		3,947,410	3,947,410	24,240,683	1,928,500	30,116,593	(703,786)	(157,731)	29,255,075
6/30/2021		3,945,310	3,945,310	23,856,203	1,957,250	29,758,763	(657,022)	(157,731)	28,944,010
6/30/2022		3,941,703	3,941,703	21,490,133	1,985,750	27,417,585	(606,759)	(157,731)	26,653,095
6/30/2023		3,943,423	3,943,423	21,064,105	1,983,750	26,991,278	(553,349)	(157,731)	26,280,197
6/30/2024		3,944,468	3,944,468	20,278,013	547,500	24,769,980	(496,496)	(157,731)	24,115,753
6/30/2025		2,381,868	2,381,868	20,234,193	545,900	23,161,960	(435,992)	(157,731)	22,568,238
6/30/2026		2,384,078	2,384,078	20,140,255	543,400	23,067,733	(372,047)	(157,731)	22,537,955
6/30/2027		2,385,438	2,385,438	20,152,710		22,538,148	(303,366)	(157,731)	22,077,051
6/30/2028		2,382,088	2,382,088	20,085,030		22,467,118	(231,973)	(157,731)	22,077,414
6/30/2029		2,383,038	2,383,038	17,953,030		20,336,068	(157,651)	(157,731)	20,020,686
6/30/2030		2,383,488	2,383,488	10,576,745		12,960,233	(80,399)	(157,731)	12,722,103
6/30/2031		2,382,103	2,382,103	6,646,315		9,028,418		(157,731)	8,870,687
6/30/2032		2,385,330	2,385,330	6,642,335		9,027,665		(157,731)	8,869,934
6/30/2033		2,381,553	2,381,553	4,620,210		7,001,763		(157,731)	6,844,032
6/30/2034		2,381,648	2,381,648	4,619,760		7,001,408		(157,731)	6,843,677
6/30/2035				9,981,460		9,981,460		(157,731)	9,823,729
6/30/2036				2,604,000		2,604,000			2,604,000
	2,493,850	63,456,894	65,950,744	411,827,259	20,479,663	498,257,666	(9,656,707)	(3,470,082)	485,130,877

\* After the anticipated refunding of Series 2004A.

\*\* Housing & Auxiliary Facilities System Bonds

**NOTE 1** The amount represents the Build America Bond Interest Credit before sequestration reductions. Net credit is shown below:

Payment Date	Original BAB Credit	Sequest. Reduction	Net BAB Credit
1-Oct-13	\$ 462,175.00	\$ 40,209.23	\$ 421,965.78
1-Apr-13	\$ 462,175.00	\$ 33,276.60	\$ 428,898.40
FY14 Total	\$ 924,350.00	\$ 73,485.83	\$ 850,864.18


**NOTE 2** The amount represents the Qualified Energy Conservation Bond Interest Credit before sequestration reductions. Net credit is shown below:

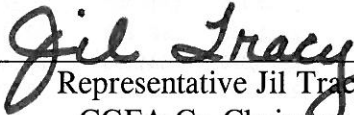
Payment Date	Original BAB Credit	Sequest. Reduction	Net BAB Credit
1-Oct-13	\$ 78,865.50	\$ 6,861.30	\$ 72,004.20
1-Apr-13	\$ 78,865.50	\$ 5,678.32	\$ 73,187.18
FY14 Total	\$ 157,731.00	\$ 12,539.61	\$ 145,191.39

After carefully reviewing the information submitted by Southern Illinois University to issue \$46 million in Certificates of Participation, the Commission voted on November 5, 2013, by a vote of 9-0-0, 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  
S389

## COMMISSION MEMBERS ROLL-CALL

*Hearing Date: Tuesday, November 5, 2013 – 10:30 a.m.*

### ***Proposed Southern Illinois University Issuance of 2014A Certificates of Participation***

***Motion:*** A - Favorably Recommended

<i>Commission Member</i>	<b>MOTION VOTE</b>		
	<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)	✓		
<b>Attendance/Vote</b>	9		

Recommended Motion: Nekritz  
Seconded the Motion: Koehler