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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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December 4, 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  
Timothy L. Killeen, President, University of Illinois

**RE:** *Report of the Commission's Findings Concerning University of Illinois'  
Issuance of Series 2014 Certificates of Participation*

The Commission met on Wednesday, November 19, 2014, to hear and take action on the proposed issuance of up to \$150 million of Certificates of Participation (COPs) by the University of Illinois. The following documentation details background information on the Certificates to be refunded, the Certificates to be issued and the University's debt.

**The State University COP Act:**

The various Boards of Trustees for each public university have very broad authority to issue revenue bonds and other debt instruments for certain expenses that do not receive state funding -- auxiliary facilities (i.e. dorms) and non-academic facilities (i.e. stadiums). The public universities needed the ability to cover certain projects with certificates of participation during periods when the State's capital program had stalled.

Universities had been issuing COPs for many different things that were sometimes not necessarily allowed under existing statutes at the time. The Speaker of the House's office questioned this, prompting Southern Illinois University (through Chapman and Cutler) to ask for explicit authority to issue COPs. The Office of Governmental

Relations at the University of Illinois stepped in to help write the language. During the discussions about how to allow the universities the ability to issue COPs to deal with the academic infrastructure, the universities did not want to be caught in the debate over capital expenditures, such as those that had delayed passage of State capital bills for several years. The Commission on Government Forecasting and Accountability (Commission) emerged as the most practical option that provided the universities a mechanism to pass such debt instruments while providing General Assembly oversight. (Information provided by Office of Governmental Relations, University of Illinois, 9/2010.)

**Provisions under the Act:**

Under the State University Certificates of Participation Act [110 ILCS 73], University Boards are allowed to enter into financing agreements for the “financing of capital improvements (including technology or other related improvements) by selling certificates of participation...Such financing agreements may be entered into for any period of time less than or equal to 30 years, but not to exceed the useful life of the capital improvement”. 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.

|                               |                              |
|-------------------------------|------------------------------|
| <b><u>Recommendation:</u></b> | <b>Favorably Recommended</b> |
|-------------------------------|------------------------------|

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

***Time Line:***

*October 8, 2014*  
*November 19, 2014*  
*December 4, 2014*

*Commission Received Request for Hearing*  
*CGFA Hearing Held*  
*Recommendation and Findings Required*

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

|                                      |               |
|--------------------------------------|---------------|
| Certificates of Participation Amount | \$150 million |
| Maturity                             | 2028          |
| Estimated True Interest Cost         | 2.940%        |

***Note from Jim Beck, Acacia Financial:***

*As presented at the Commission hearing on November 19<sup>th</sup>, given current interest rates, credit spreads and cash availability, the current sizing is closer to the \$105 million...As you know, due to many factors (including extensive tax analysis) we are monitoring the plan of finance on a daily basis and the par amount of bonds refunded and the related savings will change all the way up to the actual day of pricing based upon the aforementioned factors (interest rates, credit spreads, tax analysis and cash availability). Also, please remember that the University will not execute a refunding transaction if the overall minimum net present value savings of 3.00% is not achieved...The University would request that the approval from the Commission remain at the not to exceed amount of \$150 million which was also the amount approved by the University Trustees. This maximum approval amount will allow us structuring flexibility in a rapidly changing interest rate environment.*

**Terms of COP**

The University of Illinois Series 2014 Certificates of Participation would be sold for up to \$150 million to refund four outstanding Certificates of Participation: Series 2005, Series 2006A, Series 2007A, and Series 2009A. The University's Board of Trustees held a meeting on November 13, 2014, at which they approved the refinancing.

The U of I plans to issue four separate 2014 Series COPs equaling up to \$150 million:

- Certificates of Participation Refunding – Taxable Series 2014A
- Certificates of Participation Refunding – Taxable Series 2014B
- Certificates of Participation Refunding – Series 2014C
- Certificates of Participation Refunding – Series 2014D

Two of the issuances that are being refunded were refunding COPs (COPs which refunded previous COP sales). This requires those COPs to be sold as Taxable. All of the COPs being refunded were sold under separate senior indentures, so they will be refunded separately pursuant to the original authorizing indentures.

The COPs are expected to receive an estimated True Interest Cost of 2.940%, and create a savings of 6.34% for the University. The U of I plans to issue the Certificates through a negotiated public offering, and close the sale by December 31, 2014.

The refunded COPs have maturity dates ranging from FY 2026 to FY 2028. The maturity date on the COPs to be sold would be through FY 2028. The University's bond and COP ratings are Aa3 from Moody's and AA- from Standard & Poor's.

**Previous Certificates of Participation to Be Refunded:**

| Series  | Original Issuance Amount | Purpose  | Revenue Source for Repayment  |
|---|--------------------------|--|---|
| <i>Series 2005 COPs</i><br>(Taxable)<br>(UIC College of Medicine Research Building Project) | \$20,590,000             | To finance the construction of a new College of Medicine Research Building at the Chicago campus, as well as the demolition of buildings and structures currently on the site of the new building, and modifications to adjacent buildings to facilitate the construction of, and connection to, the new building. | Installment Payments made pursuant to an Installment Purchase Contract by the Board from funds derived from Legally Available Nonappropriated Funds (Tuition, Student Fees, etc.) on an annual basis. |
| <i>Series 2006A COPs</i><br>(Academic Facilities Projects)                                  | \$81,930,000             | To finance the construction of a new Business Instructional Facility on the Urbana campus of the University and various improvements to Building's on the University's campuses at Chicago, Springfield and Urbana as part of the University's Facilities Renewal Program.   | Installment Payments made pursuant to an Installment Purchase Contract by the Board from funds derived from Legally Available Nonappropriated Funds (Tuition, Student Fees, etc.) on an annual basis. |
| <i>Series 2007A COPs</i><br>(Refunding and Projects)  | \$72,725,000             | To finance the construction and/or renovation of the Illinois Fire Services Institute Learning Resource and Research Center, University-wide Facilities Renewal Program, a Library Remote Storage Facility and the refinancing of outstanding Series 1997 Certificates.  | Installment Payments made pursuant to an Installment Purchase Contract by the Board from funds derived from Legally Available Nonappropriated Funds (Tuition, Student Fees, etc.) on an annual basis. |
| <i>Series 2009A<sup>1</sup> COPs</i><br>(Refunding)   | \$38,230,000             | To currently refund and redeem the entire \$112,840,000 outstanding principal amount of the Series 2007C and Series 2007D Certificates.  | Installment Payments made pursuant to an Installment Purchase Contract by the Board from funds derived from Legally Available Nonappropriated Funds (Tuition, Student Fees, etc.) on an annual basis. |

<sup>1</sup> As a pro-active measure, the University is contemplating the refunding of the Series 2009A COPs related to the Petascale Computing Facility. The University has identified the potential for an increase in the private-use of the facility and is therefore evaluating the taxable refunding of said bonds in the current market while interest rates remain favorable at historically low levels.

Certificates of Participation Assumptions and Uses of Funds:

Board of Trustees of University of Illinois

Proposed Refunding Certificates of Participation, Series 2014

Estimated Sources and Uses of Funds (Preliminary – Subject to Change)

| <u>Sources</u>                       | <u>2005 COPs</u><br><u>taxable</u> | <u>2006A COPs</u>      | <u>2007A COPs</u>      | <u>2009A COPs</u><br><u>taxable</u> | <u>TOTAL</u>            |
|--------------------------------------|------------------------------------|------------------------|------------------------|-------------------------------------|-------------------------|
| Bond Proceeds                        | \$13,055,000.00                    | \$46,315,000.00        | \$48,880,000.00        | \$19,985,000.00                     | \$128,235,000.00        |
| Par Amount                           |                                    | \$7,475,509.40         | \$9,848,660.60         |                                     | \$17,324,170.00         |
| Premium                              |                                    |                        |                        |                                     |                         |
| <b>Total Sources</b>                 | <b>\$13,055,000.00</b>             | <b>\$53,790,509.40</b> | <b>\$58,728,660.60</b> | <b>\$19,985,000.00</b>              | <b>\$145,559,170.00</b> |
| <u>Uses:</u>                         |                                    |                        |                        |                                     |                         |
| Refunding Escrow Deposits            |                                    |                        |                        |                                     |                         |
| Cash Deposit                         | \$0.50                             | \$0.87                 | \$0.58                 | \$0.54                              | \$2.49                  |
| SLGS Purchases                       | \$12,961,213.00                    | \$53,466,050.00        | \$58,385,466.00        | \$19,780,280.00                     | \$144,593,009.00        |
| <b>Subtotal</b>                      | <b>\$12,961,213.50</b>             | <b>\$53,466,050.87</b> | <b>\$58,385,466.58</b> | <b>\$19,780,280.54</b>              | <b>\$144,593,011.49</b> |
| Costs of Issuance                    | \$26,110.00                        | \$92,630.00            | \$97,760.00            | \$100,000.00                        | \$316,500.00            |
| Underwriter's Discount               | \$65,275.00                        | \$231,575.00           | \$244,400.00           | \$99,925.00                         | \$641,175.00            |
| Additional Proceeds                  | \$2,401.50                         | \$253.53               | \$1,034.02             | \$4,794.46                          | \$8,483.51              |
| <b>Total Uses</b>                    | <b>\$13,055,000.00</b>             | <b>\$53,790,509.40</b> | <b>\$58,728,660.60</b> | <b>\$19,985,000.00</b>              | <b>\$145,559,170.00</b> |
| <u>Assumptions:</u>                  |                                    |                        |                        |                                     |                         |
| Dated & Delivery Date                |                                    |                        | 12/18/2014             |                                     |                         |
| True Interest Cost (TIC)             |                                    |                        | 2.9398%                |                                     |                         |
| Maturity                             |                                    |                        | 2028                   |                                     |                         |
| Average Life                         |                                    |                        | 8.214                  |                                     |                         |
| Arbitrage Yield                      |                                    |                        | 2.8756%                |                                     |                         |
| Escrow Yield                         |                                    |                        | 0.7120%                |                                     |                         |
| Value of Negative Arbitrage          |                                    |                        | \$5,613,725.26         |                                     |                         |
| Percentage Savings of refunded bonds |                                    |                        | 6.3405%                |                                     |                         |
| Net Present Value Savings            |                                    |                        | \$8,384,037.95         |                                     |                         |

Payment of COPs

General revenues of the University will pay for the debt service on the new refunding COPs (the same as the original funding on the COPs being refunded), and are not charged against the University's annual appropriation. A preliminary debt service schedule is below.

| BOND DEBT SERVICE                                   |             |        |               |                |  |
|---|-------------|--------|---------------|----------------|--|
| The Board of Trustees of the University of Illinois |             |        |               |                |  |
| Proposed Refunding COPs , Series 2014               |             |        |               |                |  |
| Market Conditions as of September 26, 2014          |             |        |               |                |  |
| Preliminary, Subject to Change                      |             |        |               |                |  |
| Period<br>Ending                                    | Principal   | Coupon | Interest      | Debt Service   |  |
| 06/30/2015  | 625,000     | **% %  | 1,503,665.84  | 2,128,665.84   |  |
| 06/30/2016  | 2,605,000   | **% %  | 5,780,363.19  | 8,385,363.19   |  |
| 06/30/2017  | 6,410,000   | **% %  | 5,737,059.51  | 12,147,059.51  |  |
| 06/30/2018  | 6,630,000   | **% %  | 5,528,760.16  | 12,158,760.16  |  |
| 06/30/2019  | 6,865,000   | **% %  | 5,298,734.93  | 12,163,734.93  |  |
| 06/30/2020  | 7,125,000   | **% %  | 5,048,591.74  | 12,173,591.74  |  |
| 06/30/2021  | 7,225,000   | **% %  | 4,739,803.62  | 11,964,803.62  |  |
| 06/30/2022  | 6,350,000   | **% %  | 4,434,570.74  | 10,784,570.74  |  |
| 06/30/2023  | 14,935,000  | **% %  | 3,930,749.49  | 18,865,749.49  |  |
| 06/30/2024  | 15,665,000  | **% %  | 3,196,936.02  | 18,861,936.02  |  |
| 06/30/2025  | 16,450,000  | **% %  | 2,422,013.06  | 18,872,013.06  |  |
| 06/30/2026  | 15,695,000  | **% %  | 1,603,295.11  | 17,298,295.11  |  |
| 06/30/2027  | 10,560,000  | **% %  | 812,871.31    | 11,372,871.31  |  |
| 06/30/2028  | 11,095,000  | **% %  | 275,842.41    | 11,370,842.41  |  |
|   | 128,235,000 |        | 50,313,257.14 | 178,548,257.14 |  |

**Current U OF I Debt**

The State University Certificates of Participation Act places a limit on COP debt service for each of the State universities. The University of Illinois's COP debt service limit is \$100 million annually.

The tables on the following pages show the amount of debt service for outstanding COPs and University revenue bonds, not including the requested COPs. The 2014 Certificates' debt service will go from \$2.1 million in the first year, to \$8.4 million in the second year. FY 2017 - FY 2022 will remain around the \$11 - \$12 million mark. FY 2023 - FY 2026 will range from \$17 - \$19 million, with the last two years of debt service being \$11.4 million each year. Added together with the debt service of outstanding COPs, total COP debt service will not exceed \$45 million annually.

Annual Debt Service for COPs will range from \$44 million to \$45 million from FY 2016 through FY 2021, then \$32 million to \$21 million from FY 2022 to FY 2026, with the last two years debt service at \$15 million each year.

Annual Debt Service for Bonds will range from \$78 million to \$99 million from FY 2015 through FY 2030, then \$42 million to \$65 million from FY 2031 to FY 2036, with the final years ranging from \$27 million to \$31 million until FY 2044.

As of October 1, 2014, COP outstanding principal was \$336 million, while the University's bonds carried an outstanding principal of \$1.210 billion.

University of Illinois - Certificates of Participation Debt Service (as of October 1, 2014)

| Date         | 2009 A COPS       |         | 2007 A COPS        |         | 2007 B COPS       |         | 2006 A COPS       |         | 2005 COPS         |         | 2004 COPS          |         | 2003 COPS - Utility |         | TOTAL |         |                    |
|--------------|-------------------|---------|--------------------|---------|-------------------|---------|-------------------|---------|-------------------|---------|--------------------|---------|---------------------|---------|-------|---------|--------------------|
|              | Debt              | Service | Debt               | Service | Debt              | Service | Debt              | Service | Debt              | Service | Debt               | Service | Debt                | Service | Debt  | Service |                    |
| 6/30/2012    |                   |         |                    |         |                   |         |                   |         |                   |         |                    |         |                     |         |       |         | -                  |
| 6/30/2013    |                   |         |                    |         |                   |         |                   |         |                   |         |                    |         |                     |         |       |         | -                  |
| 6/30/2014    |                   |         |                    |         |                   |         |                   |         |                   |         |                    |         |                     |         |       |         | -                  |
| 6/30/2015    |                   |         |                    |         |                   |         |                   |         |                   |         |                    |         |                     |         |       |         | 8,049,674          |
| 6/30/2016    | 3,574,831         |         | 3,800,446          |         | 10,681,875        |         | 6,396,407         |         | 1,653,267         |         |                    |         |                     |         |       |         | 45,233,310         |
| 6/30/2017    | 3,618,231         |         | 8,676,884          |         | 5,312,750         |         | 6,393,657         |         | 1,652,427         |         | 11,743,574         |         |                     |         |       |         | 44,800,054         |
| 6/30/2018    | 3,634,881         |         | 8,676,009          |         | 5,305,875         |         | 6,391,865         |         | 1,653,227         |         | 11,765,597         |         |                     |         |       |         | 44,615,304         |
| 6/30/2019    | 3,649,006         |         | 3,290,659          |         | 10,677,125        |         | 6,390,532         |         | 1,655,517         |         | 18,952,490         |         |                     |         |       |         | 44,645,036         |
| 6/30/2020    | 3,661,256         |         | 3,287,228          |         | 10,678,750        |         | 6,390,538         |         | 1,654,383         |         | 18,983,325         |         |                     |         |       |         | 44,686,836         |
| 6/30/2021    | 3,300,881         |         | 3,288,276          |         | 10,680,500        |         | 6,390,323         |         | 1,654,875         |         | 19,014,404         |         |                     |         |       |         | 44,365,978         |
| 6/30/2022    | 1,231,869         |         | 3,288,769          |         |                   |         | 6,390,286         |         | 1,651,435         |         | 19,054,599         |         |                     |         |       |         | 31,655,007         |
| 6/30/2023    | 3,231,106         |         | 11,525,506         |         |                   |         | 6,386,714         |         | 1,654,875         |         | 19,092,781         |         |                     |         |       |         | 22,796,444         |
| 6/30/2024    | 3,205,606         |         | 11,545,894         |         |                   |         | 6,390,156         |         | 1,649,675         |         |                    |         |                     |         |       |         | 22,788,829         |
| 6/30/2025    | 3,179,981         |         | 11,569,769         |         |                   |         | 6,386,942         |         | 1,650,388         |         |                    |         |                     |         |       |         | 22,783,463         |
| 6/30/2026    | 3,152,247         |         | 11,593,756         |         |                   |         | 6,386,550         |         | 1,647,163         |         |                    |         |                     |         |       |         | 21,130,816         |
| 6/30/2027    | 3,122,081         |         | 11,609,131         |         |                   |         | 6,384,813         |         |                   |         |                    |         |                     |         |       |         | 14,731,213         |
| 6/30/2028    | 3,089,013         |         | 11,627,816         |         |                   |         |                   |         |                   |         |                    |         |                     |         |       |         | 14,716,828         |
| <b>Total</b> | <b>41,650,991</b> |         | <b>103,780,142</b> |         | <b>53,336,875</b> |         | <b>76,678,783</b> |         | <b>18,177,231</b> |         | <b>118,606,769</b> |         |                     |         |       |         | <b>426,998,791</b> |
|              |                   |         |                    |         |                   |         |                   |         |                   |         |                    |         |                     |         |       |         | <b>14,768,000</b>  |

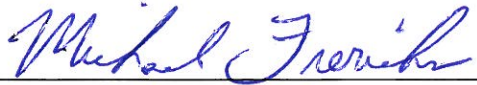




After carefully reviewing the information submitted by the University of Illinois to issue up to \$150 million in Certificates of Participation, the Commission voted on November 19, 2014, by a vote of 10-0-0, to favorably recommend the issuance of COPs. A copy of the vote appears on the following page.

**Recommendation:**

**Favorably Recommended**



Senator Michael Frerichs  
CGFA Co-Chairman



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Representative Jil Tracy  
CGFA Co-Chairman

DRL:lk  
S425

**COMMISSION MEMBERS ROLL-CALL**

*Hearing Date: Wednesday, November 19, 2014*

*11:00 a.m. - Room 212, State House*

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

**Motion:** Favorably Recommend

| <i>Commission Member</i>                     | <b>MOTION VOTE</b> |           |                |
|--|--------------------|-----------|----------------|
|  | <b>YES</b>         | <b>NO</b> | <b>Present</b> |
| Representative Kelly Burke (D)               | ✓                  |           |                |
| Senator Michael Frerichs (D) <b>Co-Chair</b> | ✓                  |           |                |
| 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) <b>Co-Chair</b> | ✓                  |           |                |
| Senator Donne Trotter (D)                    | ✓                  |           |                |
| Representative Michael Tryon (R)             |                    |           |                |
| <b>COP VOTE</b>                              | 10                 | 0         | 0              |

**Motion:** Senator Frerichs

**Seconded:** Senator Rose