



REVIEW OF AVAILABLE FUNDING FOR STRATEGIC CAPITAL INVESTMENTS IN AUXILIARY ENTERPRISE FACILITIES

Finance, Facilities, and Operations Committee
Board of Trustees

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DEFINITIONS

(Rider 1)

- **Auxiliary Enterprise** - An auxiliary enterprise is an accounting entity (operation) which is not directly related to instruction, research, or service organizational units, but which supports the overall objectives of the university. The distinguishing characteristic of an auxiliary enterprise is that it is managed essentially as, and intended to be, a self-supporting activity. (Examples: residence and dining facilities, bookstore, parking, etc.)
- **Revenue Bonds** - A municipal bond supported by the revenue from a specific project, such as a residence or dining hall, a student center, or stadium. Revenue bonds finance income-producing capital projects and are secured by a specified revenue source.
- **Bond Covenants** - A legally binding term of an agreement between a bond issuer and a bond holder. Bond covenants are designed to protect the interests of both parties.



RELEVANT LAWS AND POLICIES

- State Legislative Audit Committee Guidelines (adopted 1982; revised 1997)
- Bond Covenants and Restrictions
- Bond Resolution Requirements (Original Bond Resolution dated August 1, 1985, as amended)
- IRS tax-exempt Laws and Regulations
- State Laws and Guidelines



RESTRICTIONS ON CAPITAL USES OF MAJOR FUND SOURCES

- Tuition may not be used for a non-instructional facility.
- State appropriations may not be used for a non-instructional facility.
- Income from auxiliary enterprises may not be applied to either operating or capital expenses outside of the auxiliary enterprise system.
- Universities have borrowing authority (revenue bonds) only to build or renovate auxiliary enterprise facilities; they have no other borrowing authority (except for certificates of participation for energy performance improvements or refinancing of revenue bonds).
- Universities have authority to establish student fees for general capital improvements, which supplement the periodic State appropriations for capital renewal and improvements.



THERE IS CURRENTLY ONE COVENANT IN EFFECT

“The Board will adopt such rules and regulations as are necessary to assure reasonable occupancy and use of the System; and that the rents, fees, charges and admissions (including charges for utility and janitor services) chargeable to the occupants of, and students, faculty members and others using or being served by or having the right to use or having the right to be served by, the System and Pledged Fees shall be so fixed and revised from time to time and shall be so collected that **the amount of Net Revenue plus Pledged Fees in each Fiscal Year is at least equal to 115 percent of (1.15 times) Maximum Annual Net Debt Service**”
(Section 14(g) of the Original Bond Resolution)



DEBT SERVICE COVERAGE, FY 2012-13

* Results reflect revenue decline, increased depreciation, and \$7 million increase in interest expense and audit adjustment

** See Rider 2



RESERVES and OPERATING BALANCES

- Uses of these funds, as most University funds, are subject to Legislative Audit Committee (LAC) University Guidelines (1982, Rev 1997).
- Funds available are also subject to requirements of the Board's Bond Resolution. Revenues from the auxiliary system can only be used in the system or to pay down outstanding debt. (Rider 3)
- Three reserves are permissible: (1) Repair and Replacement Reserve (R&R), (2) Equipment Reserve, and (3) Non-Instructional Facilities Development Reserve.
- The Reserves have set minimum and maximum levels per the Bond Resolution.



REQUIRED RESERVES-REPAIR and REPLACEMENT

- Minimum amount established is 10% of the Maximum Annual Net Debt Service, or \$1.7 million.
- Maximum amount is set at 5% percent of the replacement cost (based on an Engineering News Record Building Cost Index), or \$32 million.
- Current balance totals \$23.4 million.
- Excluding prior capital commitments, the net available for strategic capital investment is \$11.5 million.



REQUIRED RESERVES-EQUIPMENT

- Under the Bond Resolution, maximum amount shall not exceed 20% of the book value of the movable equipment of the system, or \$340,000.
- Current balance in equipment reserves totals \$19.7 million.
- Excluding approved equipment purchases, the net available for strategic capital investment is \$10 million.



UNCOMMITTED “BUILD AMERICA BOND (BAB)” PROCEEDS

- Available for any or all current projects and facilities listed in the BABs Official Statement.
- These include Gilbert, Holmes, Grant, Stevenson, parking lots and roadways.
- Additional projects may be added with Board resolution and approval (e.g., Douglas demolition).
- Anticipated use by 12/31/2014, but a transition in leadership and new capital priorities are sufficient justification to explain a delay (per bond counsel).
- Current amount available from BABs for projects is approximately \$27 million.



AVAILABLE FUNDS

- Uncommitted BABS proceeds (\$27 million); plus unobligated system cash (\$12 million); plus reserves in excess of minimums required and prior obligations (\$22 million) total approximately \$61 million available for strategic capital initiatives.
- Reserves for routine repair projects and equipment replacement, including annual inflows, are sufficient for these purposes.



RECOMMENDATIONS

- Utilize \$4.5 million BABs proceeds in lieu of previously (March) approved “local” funds for Douglas demolition.
- Utilize \$1.5 million bond proceeds for preliminary Architectural/Engineering studies for Holmes improvements.
- Resolutions to modify for changes:
 - Substitute BABs as the approved funding source for Douglas demolition.
 - Remove Douglas from Auxiliary Facilities System.
 - Approve \$1.5 million for preliminary architectural and engineering studies, project phasing, and cost estimates for Holmes improvements.



BENEFITS

- The Douglas demolition creates more green space on campus.
- Douglas is outdated, costly to rehabilitate, and contributes to excess bed capacity on campus.
- Demolition reduces operating costs of an older facility, especially utility costs.
- For Holmes, renovations create a renewed center of student activity, an appealing environment to facilitate student recruitment, and a convenient single location for student services.
- A revitalized Holmes will stimulate opportunities for increased revenue flow from new or rejuvenated auxiliary activities.



Riders to NIU Powerpoint Presentation

Rider 1:

“Auxiliary Facilities System” or *“System”* means the existing housing, dining, student union, stadium, field house, and other revenue producing buildings and facilities (including equipment) of the University described in the Bond Resolution (list is attached as Exhibit A), together with all improvements, repairs, extensions, or replacements, later constructed or acquired. The Board by resolution can add additional revenue-producing facilities to the System and can also dispose of or abandon parts of the System, so long as the Board complies with the requirements of the Bond Resolution.

“Bond Resolution” means the Auxiliary Facilities System Bond Resolution adopted by the Board of Regents of the State of Illinois (the predecessor to the Board) on August 1, 1985, and all resolutions supplemental thereto. To date, there are six supplemental revenue bond resolutions to the original 1985 resolution, some of which amend sections of the original Bond Resolution. References to the “Bond Resolution” are to the original Resolution, as so amended and supplemented. The Bond Resolution authorizes the creation of the Auxiliary Facilities System, provides for the issuance of revenue bonds, and sets forth covenants that the Board must comply with for the protection of the holders of the System revenue bonds.

“Operating Revenues” means all rentals, student service fees, charges, income and revenues received from the continued use and operation of the System, which include an Auxiliary Facilities Fee, and, with respect to athletic facilities shall only include such revenues as determined by the Board to be revenues of the System; but Operating Revenues does not include Pledged Fees, Pledged Tuition or transfers from the Debt Service Reserve Account, Repair and Replacement Reserve Account, or Non-Instructional Facilities (Development) Reserve Account. In addition to the foregoing, at the direction of a Designated Officer and only with respect to a particular series of Bonds issued as “build America bonds” under the Code, *“Operating Revenues”* includes Build America Program Funds.

Rider 2: (footnote)

*Under the original (1985) Bond Resolution (Section 13), only net Operating Revenues of the System and Pledged Fees were pledged to pay the cost of operating the System and to the payment of debt service on any System revenue bonds. In Section 1.2 of the Third Supplemental Revenue Bond Resolution, adopted September 18, 1996, the Board also secured any System revenue bonds issued after 1996 with a pledge of and lien on Pledged Tuition (defined as an amount of tuition necessary to meet, together with Operating Revenues, operating and maintenance expenses and annual debt service on System revenue bonds). The Board can legally use Pledged Tuition for System purposes, but has never done so. Some underwriters or financial advisors consider this to be an indication of the good credit quality of the System revenue bonds.

Rider 3:

All Operating Revenues of the System are required to be deposited in a special fund created by the Bond Resolution (the "Revenue Fund"). The Operating Revenues must be spent for the operation and maintenance of the System facilities, payment of debt service on the System Revenue Bonds, and for various reserves, all as described in Section 13 of the Bond Resolution. At the end of each fiscal year, any surplus Operating Revenues maybe used only to redeem or refund outstanding System revenue bonds or to purchase System revenue bonds for cancellation. (Section 13(h) of the original Bond Resolution).

EXHIBIT A

**NORTHERN ILLINOIS UNIVERSITY AUXILIARY
FACILITIES SYSTEM**

EXISTING FACILITIES

Residence Halls

Gilbert
Neptune E/W
Neptune North
Lincoln
Douglas
Grant South
Grant North
Stevenson South
Stevenson North

Holmes Student Center

Student Recreation Center

Athletic Facilities

Evans Field House
Huskie Stadium

Campus Life Building

Campus parking facilities

Convocation Center