

Senator Rick Girdler, Co-Chair
Representative Chris Freeland, Co-Chair
Capital Projects and Bond Oversight Committee
702 Capitol Avenue
Frankfort, Kentucky 40601

Chairs Girdler and Freeland,

Northern Kentucky University (the "University") respectfully requests that the University's General Receipts Bonds, 2021 Taxable Series A (the "Bonds"), in the amount not to exceed \$320,000,000, in one or more series, be placed on the Committee's March 2021 Agenda for consideration (see attached). The purpose of the bond issue is to cease participation in the Kentucky Retirement Systems (KRS) nonhazardous fund and the related Other Post Employment Benefit Fund attributable to the University.

Although we are mindful of the Committee's general policy that all legal approvals required for the issuance of bonds be obtained before consideration by the Committee, we request consideration prior to approval by the State Property and Buildings Commission ("SPBC") in order to most efficiently achieve the financial goals related to the Bonds.

We have been advised that SPBC has determined that specific statutory authorization must be in force prior to their approval of the Bonds. Working with Senator Chris McDaniel, we are utilizing SB 214, as amended by a floor amendment containing the necessary language, to be the legislative vehicle for this authority. It is likely that SB 214, which contains an emergency clause, will have passed both chambers by the time the Committee meets in March. Regardless, we understand that SPBC is willing to act as soon as SB 214 is in force.

As described below, a delay until the late April meeting of the Committee may put the University's financial plan at risk of achieving less than an optimal financial result. This request is being made due to a unique confluence of circumstances brought on by the pandemic, statutory requirements, market conditions, as well as significant financial implications to the University. Therefore, we are requesting that the Committee consider approving the Bonds prior to SPBC approval. Approval by the Committee at its March meeting would, by law, be conditional since SPBC approval (and therefore SB 214 being in effect) would still be required after Committee approval.

The circumstances relating to this extraordinary request include, but are not limited to the following:

- Pandemic induced one-year budget with the desire to clarify the not to exceed amount of bonds in the budget in harmony with the authorization for the University to issue the obligations to fund the pension cessation as permitted under KRS 61.510 et seq ("Pension Cessation Act").
- The timing requirement that the University make an irrevocable election to exit KRS System not later than December 31, 2020, which has been made, without knowledge of the final cessation payoff amount until January 2022.
- The University desires to make a substantial payment against that liability based upon the most recent estimates provided by KRS as soon as practical, to offset the 5.25% (pension) and 6.25% (OPEB) interest rate accruals that are in effect, which will result in millions of dollars of savings to NKU at current market rates, which are significantly below the stated statutory rates.
- The University is concerned with market access after the pandemic market dislocations of last March should something unexpected happen related to Covid-19 variants and more recently the

substantial rise in the benchmark United States Treasury interest rates that directly impact the rate that NKU will ultimately pay on this transaction. As the Committee may be aware, the US Treasury 10-year and 30-year rates have risen by approximately 1/2% (50 basis points) since the beginning of the year, which has a present value over \$15 million of additional cost to the University over the life of the bonds. Further delay puts the University at risk of additional increases in interest rates fueled by inflationary concerns associated with expanded budget deficits and the proposed federal stimulus package.

- Additionally, the University has received a favorable rating from Moody's regarding the proposed bond issue (see attached rating report). Delaying to the April meeting may result in tens of thousands of additional ratings fees charged by Moody's given the lengthening of the window for the offering.

The University has considerable financial exposure that is a function of a variety of unusual events and circumstances not normally associated with capital projects or bond issues. Due to the volatility of the current bond market, having all approvals in place by early April could have a substantial impact on the total cost to the University in addressing its unfunded liability to related to KRS.

Representatives of the University and the finance team will be available in person or via video to present the information and answer any questions the Committee may have if placed on the March agenda. We are also happy to answer any questions in advance of this meeting in light of this unusual request.

Sincerely,

Mike Hales
Interim VP Administration & Finance/CFO
Northern Kentucky University

C: Katherine Halloran, Committee Staff Administrator

PRELIMINARY NEW BOND ISSUE REPORT *

Issue:	Northern Kentucky University General Receipts Bonds in an amount not to exceed \$320 million in one or more series.
Purpose of Issue:	To (i) pay amounts required to be paid by the University under the Pension Cessation Act (KRS 61.522) in order to cease participation in the Kentucky Employees Retirement System non-hazardous pension and other post-employment benefits payment system that includes certain current and former employees of the University as beneficiaries and (ii) pay the costs of issuing the Bonds.
Date of Sale:	April 8, 2021
Date of Delivery:	April 15, 2021
Ratings:	
Moody's	A1 Stable
	2021 Taxable
	Series A (\$)

Sources:

Par amount of bonds:	278,190,000.00
<u>Total Sources:</u>	278,190,000.00

Uses:

Initial Cessation Payment:	276,661,781.00
Issuance Cost:	1,528,219.00
<u>Total Uses:</u>	278,190,000.00

All-in True Interest Cost:	3.4569%
Final Maturity Date:	9/1/2050
Average Annual Debt Service:	\$ 14,801,777
Total Debt Service:	\$ 444,053,323
Average Life (years):	17.19

Method of Sale:	Negotiated
Bond Counsel:	Dinsmore & Shohl, LLP
Underwriter:	Morgan Stanley
Underwriters' Counsel:	Frost Brown Todd
Trustee:	U.S. Bank
Financial Advisor:	Commonwealth Economics Partners, LLC

Based off cashflows and interest rates as of 2/25/2021

Preliminary Subject to Change

Pursuant to KRS Chapter 45, the Issuer is providing information on all costs associated, either directly or indirectly, with this bond issuance. Costs are estimated as of the date of the cashflows and are subject to change.

PROFESSIONAL SERVICES:

<u>Firm</u>	<u>Service</u>	<u>Series A Fee (\$)</u>
Dinsmore & Shohl	Bond Counsel	85,000.00
Dinsmore & Shohl	Expenses	3,000.00
Commonwealth Economics	Financial Advisor	98,540.00
OFM		34,773.75
Morgan Stanley	Underwriter's Discount	1,120,465.05
Frost Brown Todd	Underwriter's Counsel	46,750.00
US Bank	Trustee	7,000.00
Moody's	Rating Service	115,000.00
Printing, Electronic Official Statement, & Roadshow		6,000.00
Audit Opinion		2,000.00
Misc./Contingency		<u>6,665.00</u>
TOTAL		1,525,193.80

BOND DEBT SERVICE
Northern Kentucky University - General Receipts Bonds
Series 2021 A (Pension Financing)

****Assumes Full Taxable Transaction, Market Rates as of 2/24/21****

Soft Exit w/Level Bonded Debt Service*

****Assumes \$276.7MM Net Proceeds Requirement, Per KERS Letter from 1/28/20****

****Note: All figures are preliminary, subject to change****

	Dated Date		03/10/2021		
	Delivery Date		03/10/2021		
Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
09/01/2021					
03/01/2022	6,725,000	0.426%	3,941,633.15	10,666,633.15	
06/30/2022			4,134,763.28	4,134,763.28	14,801,396.43
09/01/2022	6,550,000	0.526%	4,134,763.28	10,684,763.28	
03/01/2023			4,117,536.78	4,117,536.78	14,802,300.06
06/30/2023					
09/01/2023	6,590,000	0.626%	4,117,536.78	10,707,536.78	
03/01/2024			4,096,910.08	4,096,910.08	14,804,446.86
06/30/2024					
09/01/2024	6,635,000	0.840%	4,096,910.08	10,731,910.08	
03/01/2025			4,069,043.08	4,069,043.08	14,800,953.16
06/30/2025					
09/01/2025	6,705,000	1.211%	4,069,043.08	10,774,043.08	
03/01/2026			4,028,444.30	4,028,444.30	14,802,487.38
06/30/2026					
09/01/2026	6,790,000	1.361%	4,028,444.30	10,818,444.30	
03/01/2027			3,982,238.35	3,982,238.35	14,800,682.65
06/30/2027					
09/01/2027	6,900,000	1.766%	3,982,238.35	10,882,238.35	
03/01/2028			3,921,311.35	3,921,311.35	14,803,549.70
06/30/2028					
09/01/2028	7,025,000	1.866%	3,921,311.35	10,946,311.35	
03/01/2029			3,855,768.10	3,855,768.10	14,802,079.45
06/30/2029					
09/01/2029	7,170,000	2.238%	3,855,768.10	11,025,768.10	
03/01/2030			3,775,535.80	3,775,535.80	14,801,303.90
06/30/2030					
09/01/2030	7,335,000	2.338%	3,775,535.80	11,110,535.80	
03/01/2031			3,689,789.65	3,689,789.65	14,800,325.45
06/30/2031					
09/01/2031	7,515,000	2.488%	3,689,789.65	11,204,789.65	
03/01/2032			3,596,303.05	3,596,303.05	14,801,092.70
06/30/2032					
09/01/2032	7,710,000	2.638%	3,596,303.05	11,306,303.05	
03/01/2033			3,494,608.15	3,494,608.15	14,800,911.20
06/30/2033					
09/01/2033	7,920,000	2.738%	3,494,608.15	11,414,608.15	
03/01/2034			3,386,183.35	3,386,183.35	14,800,791.50
06/30/2034					
09/01/2034	8,145,000	2.838%	3,386,183.35	11,531,183.35	
03/01/2035			3,270,605.80	3,270,605.80	14,801,789.15
06/30/2035					
09/01/2035	8,385,000	2.938%	3,270,605.80	11,655,605.80	
03/01/2036			3,147,430.15	3,147,430.15	14,803,035.95
06/30/2036					
09/01/2036	8,665,000	3.592%	3,147,430.15	11,812,430.15	
03/01/2037			2,991,806.75	2,991,806.75	14,804,236.90
06/30/2037					
09/01/2037	8,980,000	3.592%	2,991,806.75	11,971,806.75	
03/01/2038			2,830,525.95	2,830,525.95	14,802,332.70
06/30/2038					
09/01/2038	9,310,000	3.592%	2,830,525.95	12,140,525.95	
03/01/2039			2,663,318.35	2,663,318.35	14,803,844.30
06/30/2039					
09/01/2039	9,650,000	3.592%	2,663,318.35	12,313,318.35	
03/01/2040			2,490,004.35	2,490,004.35	14,803,322.70
06/30/2040					
09/01/2040	10,000,000	3.592%	2,490,004.35	12,490,004.35	
03/01/2041			2,310,404.35	2,310,404.35	14,800,408.70
06/30/2041					
09/01/2041	10,375,000	3.742%	2,310,404.35	12,685,404.35	
03/01/2042			2,116,288.10	2,116,288.10	14,801,692.45
06/30/2042					
09/01/2042	10,770,000	3.742%	2,116,288.10	12,886,288.10	
03/01/2043			1,914,781.40	1,914,781.40	14,801,069.50
06/30/2043					
09/01/2043	11,180,000	3.742%	1,914,781.40	13,094,781.40	
03/01/2044			1,705,603.60	1,705,603.60	14,800,385.00
06/30/2044					
09/01/2044	11,610,000	3.742%	1,705,603.60	13,315,603.60	
03/01/2045			1,488,380.50	1,488,380.50	14,803,984.10
06/30/2045					
09/01/2045	12,050,000	3.742%	1,488,380.50	13,538,380.50	
03/01/2046			1,262,925.00	1,262,925.00	14,801,305.50
06/30/2046					
09/01/2046	12,510,000	3.742%	1,262,925.00	13,772,925.00	
03/01/2047			1,028,862.90	1,028,862.90	14,801,787.90
06/30/2047					
09/01/2047	12,985,000	3.742%	1,028,862.90	14,013,862.90	
03/01/2048			785,913.55	785,913.55	14,799,776.45
06/30/2048					
09/01/2048	13,480,000	3.742%	785,913.55	14,265,913.55	
03/01/2049			533,702.75	533,702.75	14,799,616.30
06/30/2049					
09/01/2049	13,995,000	3.742%	533,702.75	14,528,702.75	
03/01/2050			271,856.30	271,856.30	14,800,559.05
06/30/2050					
09/01/2050	14,530,000	3.742%	271,856.30	14,801,856.30	
06/30/2051					14,801,856.30
	278,190,000		165,863,323.39	444,053,323.39	444,053,323.39