

**MEMORANDUM**

**To:** Board of Regents  
**From:** Board Office  
**Subject:** Resolutions for the Sale and Award of \$15,200,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2005  
**Date:** March 2, 2005

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**Recommended Action:**

Adopt the following resolutions, subject to receipt of acceptable bids:

1. A Resolution providing for the sale and award of \$15,200,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2005, and approving and authorizing the agreement of such sale and award.
2. A Resolution authorizing and providing for the issuance and securing the payment of \$15,200,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2005, for the purpose of refunding the 2006 through 2020 maturities of the \$9,140,000 Academic Building Revenue Bonds, Series S.U.I. 1995, dated February 1, 1995; and for the purpose of refunding the 2006 through 2013 maturities of the \$10,800,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 1996, dated April 1, 1996.

**(ROLL CALL VOTE)**

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**Executive Summary:**

The Board is asked to adopt two resolutions related to the sale, award and issuance of \$15,200,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2005.

At its February 2005 meeting, the Board authorized the Executive Director to fix the date or dates for the sale of the refunding bonds.

The 2006 – 2020 maturities of the Academic Building Revenue Bonds, Series S.U.I. 1995 (originally issued in the amount of \$9,140,000, with a call date of July 1, 2005) and the 2006 – 2013 maturities of the Academic Building Revenue Refunding Bonds, Series S.U.I. 1996 (originally issued in the amount of \$10,800,000, with a call date of July 1, 2005) would be called and principal payments made on the call date.

The estimated net present value savings from the refunding, resulting from lower interest rates, totals approximately \$1.9 million. Annual cash flow savings are projected at more than \$100,000 annually.

The maturity schedule for the refunding bonds will not change from the schedules of the bonds being refunded.

Interest on the refunding bonds would be exempt from federal and state taxes (double tax-exempt) for Iowa residents who purchase the bonds. Interest on the bonds to be refunded has also been double tax-exempt.

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**Background:**

Interest Rates	Periodically, the Board Office and Springsted, the Board's financial advisor, evaluate bonds for refunding potential. As interest rates continue to remain low, bonds can be refunded and annual and total debt service costs reduced.
Academic Building Revenue Bonds	In the case of Academic Building Revenue Bonds, decreased annual debt service reduces the amount needed for the tuition replacement appropriation.
Tuition Replacement Appropriations	<p>Tuition replacement appropriations represent an ongoing commitment of the state to meet the debt service cost of Academic Building Revenue Bonds. Tuition and fee revenues are pledged for debt service payments for the bonds and the tuition replacement appropriation replaces that university revenue.</p> <p>Tuition replacement needs for each university are comprised of debt service payments (principal and interest), less the net interest earned on the construction, sinking and reserve funds.</p>
Definition of Refunding	A refunding is the issuance of bonds whose proceeds are used to pay principal, interest and/or call premium, if any, of an existing debt obligation; the old (refunded) debt is replaced with new (refunding) bonds.

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**Analysis:**

Bonds to be Refunded	<p>The proceeds from the sale of the proposed refunding bonds would be used to refund the Board's Academic Building Revenue Bonds, Series S.U.I. 1995 (2006 – 2020 maturities) and Series S.U.I. 1996 (2006 -2013 maturities).</p> <p>The principal to be refunded for the two issues totals \$15,125,000.</p> <p>The 1995 bonds were issued to finance renovation of Schaeffer Hall and to correct fire safety and deferred maintenance issues at the University of Iowa.</p> <ul style="list-style-type: none"><li>• Coupon rates on the 2006 – 2020 maturities of the 1995 bonds range from 5.75% in 2006 to 6.2% in 2020.</li></ul>
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The 1996 bonds were issued to refund the outstanding principal of the S.U.I. Series 1990 Academic Building Revenue Bonds. The Series 1990 Bonds were issued to defray the costs of constructing, equipping and improving University laboratories and remodeling and renovating the International Center.

- Coupon rates on the 2006 – 2013 maturities of the 1996 bonds range from 4.75% in 2006 to 5.3% in 2013.

Current interest rates for bonds maturing in 2006 – 2020 are lower than the rates being paid on the outstanding bonds.

Refunding Bond Issue	<p>The two refunded bond issues would be combined into one refunding bond issue.</p> <p>The refunding bond issue size of \$15,200,000 includes issuance costs estimated at approximately \$65,500.</p>
Internal Revenue Service Requirements	<p>Under Internal Revenue Service regulations, a current refunding must close no more than 90 days prior to the payment of the refunded bonds.</p> <p>The sale of the refunding bonds would close in mid April and the refunded bonds would be called on July 1, 2005, the first call date. This timeline would meet the requirements of the 90-day time period; therefore, no escrow account will need to be established.</p>
Receipt of Bids	<p>The receipt and opening of bids is scheduled for 10:00 a.m. on Tuesday, March 15, 2005, and the award is scheduled for later that day.</p>
Resolutions	<p>Copies of the resolutions, which were prepared by Ahlers &amp; Cooney and reviewed by Springsted, Inc., are available from the Board Office.</p>
Bond Specifics	<p>Average Maturity: 6.99 Years</p> <p>Bonds Dated: April 1, 2005</p> <p>Interest Due: January 1, 2006 and each July 1 and January 1 to maturity</p> <p>Interest Exemption: Exempt from federal and state taxes for individual purchasers who are residents of Iowa</p> <p>Principal Due: July 1, 2006 – 2020</p> <p>Optional Call: Bonds maturing on or after July 1, 2016 are callable commencing July 1, 2015 and any date thereafter at par</p> <p>Denomination: \$5,000 and integral multiples thereof</p>

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Joan Racki

Approved: \_\_\_\_\_

  
Gregory S. Nichols