Contact: Joan Racki

IOWA STATE UNIVERSITY – JACK TRICE STADIUM EAST CONCOURSE FINANCING

Action Requested: Consider authorizing the issuance of a fixed rate unsecured subordinate tax exempt loan in the amount of $4,000,000, and a variable rate unsecured subordinate tax exempt loan in the amount of $4,000,000 to finance certain improvements (Jack Trice Stadium Improvements 2006 – Phase 2 East Concourse project) (collectively, the "Loan") and authorizing the Executive Director to finalize the terms of the loan agreement.

(ROLL CALL VOTE)

Executive Summary: At its October 2008 meeting, the Board approved the schematic design and project description and budget ($11,500,000) for Iowa State University's Jack Trice Stadium Improvements 2006 - Phase 2 - East Concourse (East Concourse) project. The pro forma provided at that time assumed a 20-year financing at an annual interest rate of 5.0%. The firm of Convention, Sports and Leisure International (CSL) verified the reasonableness of the University's financial planning assumptions included in the pro forma.

Based upon an allocation of the uses of the space, the total project budget of $11,500,000 has an $8,000,000 tax-exempt component and a $3,500,000 taxable (or private use) component. The University will use money donated to the Athletic Department for the project to fund the taxable portion. The University proposes to utilize financing from Wells Fargo Public Finance, the Board's master lease provider, for the tax-exempt component.

The proposed loan would be payable solely from the net revenues of the University's existing Athletic Facilities System, including Jack Trice Stadium, which is used, among other things, for intercollegiate football competition. The loan would be subordinate to the outstanding bonds of the System ($12,175,000 Athletic Facilities Revenue Bonds, Series I.S.U. 2007 [Taxable] and the $8,220,000 Athletic Facilities Revenue Bonds, Series I.S.U. 2007A.)

The fixed rate for a 20-year non-bonded, non-appropriated financing is currently 6.28%. To lower the cost of borrowing, the University would like to use Wells Fargo Hybrid Floating Rate Demand Obligations (Floaters) currently priced at 2.20% for one half ($4,000,000) of the total amount to be borrowed.

Floaters pay interest monthly or quarterly based on a floating rate that is reset daily or weekly based on an index of short-term municipal rates. The Floaters are purchased at par. Liquidity is typically provided with a put feature, which allows the holder to put the security for par plus accrued interest on any interest rate reset date, usually with one or seven days notice. A remarketing agent, a bank or other entity, typically serves as the liquidity provider. The Floaters are put back to it rather than the issuer. The remarketing agent tries to resell these Floaters, or, failing that, holds them in its own inventory. Floaters usually have credit enhancement, either a letter of credit or bond insurance. The issuer generally has the option to convert a Floater to a fixed rate instrument. Due to the put feature, tax-exempt money market funds generally can hold Floaters.

The proposed blended financing for the East Concourse project would not have a separate liquidity provider, as the University would provide "self-liquidity" for the variable rate portion, avoiding the need for a bank letter of credit or liquidity facility. University cash reserves or investment securities would be used to satisfy the liquidity requirement.

The underwriter for the hybrid floater note, Wells Fargo Public Finance, will purchase the note and sell participations in it to accredited investors via a limited offering. Wells Fargo will also act as the remarketing agent, re-selling the Floaters as investors come and go. Interest payments and rate resets for the Floaters would be semi-annual. The interest rate would be reset each period using a "target" formula, usually a fixed percentage of a published rate index, like the Municipal Market Data (MMD) (high grade municipal bond index) short term scale, London Interbank Offered Rate (LIBOR) or Treasury obligations. Wells Fargo Public Finance may set a rate apart from the benchmark formula, from time to time, to meet market conditions.

The Floaters will contain a conversion feature that will allow the Board to convert to a fixed rate for all or part of the issue. The structure of the Floater will also allow for repayment in full, or in part, without penalty. The Floater is structured with a maximum maturity of 20 years; however, the University can pay it off at any semi-annual reset.

The transaction will be reviewed by Springsted, the Board's financial advisor, and Ahlers & Cooney, the Board's bond counsel, regarding the risks and appropriateness of this proposal.

By using a combination of fixed and variable rate debt, the University reports that it can lower the total cost of borrowing and shorten the fixed rate debt schedule from 20 to 16 years. The estimated savings at current rates is $2,956,000. The amount saved will be dependent on future interest rates for the floating rate obligations. Rates are subject to change prior to closing.