

Contact: Joan Racki

**PRELIMINARY RESOLUTION FOR THE SALE OF UP TO
\$25,000,000 UTILITY SYSTEM REVENUE BONDS, SERIES S.U.I. 2007A**

Action Requested: Consider adopting a Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$25,000,000 Utility System Revenue Bonds, Series S.U.I. 2007A.

(ROLL CALL VOTE)

Executive Summary: The Board is asked to consider adoption of a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$25,000,000 Utility System Revenue Bonds, Series S.U.I. 2007A. The sale would be scheduled for the December 2007 Board meeting.

The proposed sale was not included on the calendar year 2007 bond issuance schedule approved by the Board in November 2006. However, as the Board Office and the institutions reviewed anticipated bond issuances for calendar year 2008, including Academic Building Revenue Bonds authorized by the 2007 bonding legislation, it was determined that it would be prudent to schedule a bond issue for late in calendar year 2007.

Proceeds from the sale of the bonds would be used to fund a portion of the West Campus Chilled Water Plant Expansion – Phase 1B project, which is expanding the West Campus Chilled Water Plant (located near UIHC) by installing three 4,000 ton chillers within a building addition on the north end of the Plant. A revised project budget of \$35,838,000 was approved by the Board in September 2006. Proceeds from the bond issue may also be used for utility projects for which Board approval will be requested in the next few months. The University's utility system is a self-supporting operation.

Principal on the bonds would be repaid over a period of 20 years, with debt service of approximately \$1.9 million annually to be paid from utility system charges and the proceeds of any utility system student fees which the Board may establish in the future. Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for Iowa residents who purchase the bonds.

Additional Information: Under the provisions of Iowa Code Chapter 262, the Board is authorized to construct, equip, maintain and operate self-liquidating and revenue producing facilities at the universities; the Board is also authorized to borrow money to construct or improve these facilities.

The sources of repayment are the income and revenues to be derived from the operation or use of the facility and from any fees or charges implemented by the Board to students for whom the facilities are made available.

The size of the bond issue is estimated to total \$25,000,000 including:

- project costs (estimated at \$22,700,000);
- debt service reserve (estimated at \$1,917,000);
- underwriters discount (estimated at \$300,000) and
- issuance costs (estimated at \$83,000).

The outstanding principal amount of the University of Iowa Utility System Revenue Bonds is \$136.5 million after the November 1, 2007 principal payments on the outstanding bonds are made.

The new bonds would be issued on a parity with the outstanding bonds, with the source of repayment continuing to be utility system charges. As a credit enhancement, the bond covenants for the existing bonds include a provision for the Board to charge a Utility Student Fee to remedy any deficiencies in the net income of the enterprise. Since the new bonds are being issued on a parity with the existing bonds, the provision for a "backup student fee" would also apply to the new bonds.

Since Utility System bonds were first issued in 1985, there has not been a need to charge the student fee. There is no indication that the fee would need to be charged to support the debt service on the bonds to be issued since it is anticipated that utility system charges should be more than sufficient to meet the financial requirements of the utility enterprise.

A copy of the resolution authorizing the Executive Director to fix the date or dates for the sale of the bonds, which was prepared by Ahlers & Cooney, P.C. and reviewed by Springsted, Inc. is available from the Board Office.

The resolution includes a provision permitting the Board to receive bids by means of both sealed and electronic communication; the receipt by electronic communication is consistent with the resolution adopted by the Board in November 2001 approving the electronic bidding procedures.