MEMORANDUM

To: Board of Regents

From: Board Office

Subject: Report of the Banking Committee

Date: March 1, 2004

Recommended Actions:

1. Adopt the following resolution, subject to receipt of acceptable bids:

   A Resolution providing for the sale, award, and issuance of $25,000,000 Utility System Revenue Bonds (The State University of Iowa) Series S.U.I. 2004, approving and authorizing the agreement of such sale and award and authorizing and approving the execution and delivery of the Ninth Supplemental Indenture, Tax Exemption Certificate, Continuing Disclosure Certificate, and other documents.

   (ROLL CALL VOTE)

2. Adopt the following resolutions:

   A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to $7,100,000 Recreational Facility Revenue Refunding Bonds, Series I.S.U. 2004.

   (ROLL CALL VOTE)

   A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to $7,000,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2004.

   (ROLL CALL VOTE)

   A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to $8,900,000 Academic Building Revenue Refunding Bonds.

   (ROLL CALL VOTE)

3. Provide direction to the Board on financing the Kinnick Stadium Renovation.

   If the Board chooses Design Option B, B1, C or D, direct the University to return to the Banking Committee with a financing plan for the Board selected design option.

   If the Board approves proceeding with the University's recommended design option (Option E) for the renovation of Kinnick Stadium (project cost of $86.8 million), recommend the issuance of parity, student fee backed bonds and bond anticipation notes as the least costly financial mechanism.

Executive Summary:

Approvals

The Banking Committee materials have been furnished to all Board members. During its meeting on March 10, 2004, the Banking Committee is scheduled to consider approval of:

- The minutes from the February 2004 Banking Committee meeting
- Resolution for sale of SUI Utility bonds
- Preliminary Resolutions for refunding bonds:
    - ISU Recreational Facility Refunding Bonds
    - SUI Academic Building Refunding Bonds
    - ISU Academic Building Refunding Bonds
- Financial Plan for SUI Kinnick Stadium Renovation

Reports

The Banking Committee is scheduled to receive reports on State Audits and Internal Audits.

Background and Analysis:

Minutes

The minutes of the February 2004 Banking Committee meeting will be sent at a later date.

State Audits

State audit reports are presented to the Banking Committee as required by Board policy. State Auditor David Vaudt will be available for any questions.

The State Auditor reviewed and evaluated the general and application controls of: the University of Iowa's Purchasing and Accounts Payable System, Iowa State University's Tuition System, and the University of Northern Iowa's Modern Executive Management Financial Information System. The audits were undertaken to determine whether controls were sufficient to provide reasonable, but not absolute, assurances that control objectives were achieved.

The auditor's opinion concluded that general controls for all three systems were sufficient, except for the identified findings. The universities are taking corrective action and the auditor's conclusions for all responses have been accepted or acknowledged.

Internal Audits

Completed institutional internal audit reports are presented to the Banking Committee as required by Board policy. The Board Office monitors the progress of the institutions' follow-up on these reports. When corrective action has been satisfactorily completed, the audits are closed.

Fourteen new audit reports are presented this month: nine from the University of Iowa, three from Iowa State University, and two from the University of Northern Iowa.

The Status of Internal Audit Follow-Up Table on page 3 identifies 18 internal audit reports, 10 of which require follow-up. Eleven follow-up reports are presented this month: three from University of Iowa – University Operations, four from University of Iowa – Hospital Operations, two from Iowa State University, and two from the University of Northern Iowa; one follow-up at the University of Northern Iowa remains open.

The Board Office is continuing discussions with Iowa State University regarding a change in the University's reporting methodology. The Banking Committee will be asked at a future time to address these changes. As a result, two follow-up reports are listed as being "on hold".

SUI Utility Bonds

The Board is requested to adopt a resolution for the sale and award of $25,000,000 Utility System Revenue Bonds, Series S.U.I. 2004, subject to the receipt of acceptable bids.

At its February 2004 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds.

Proceeds from the sale of the bonds would be used to fund the Upgrade of the Health Sciences Campus - Purified Water System project and a portion of the cost of the West Campus Chilled Water Plant Development/ Expansion project.

Principal on the bonds would be repaid over a period of 20 years, with debt service of approximately $1,850,000 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.

The University's Utility System is a self-supporting operation.

Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for individuals who are Iowa residents and purchase the bonds.

Refunding Bonds

The bond issuance schedule for calendar year 2004 adopted by the Board in November 2003, included no planned sales in April. The November memorandum noted that the schedule provided flexibility to undertake refundings in April if interest rates were favorable.

As discussed previously with the Banking Committee, interest rates are historically low and the yield curve is very steep. This scenario is particularly advantageous for current refundings (occurring within 90 days of the call date) since no escrow needs to be established.

Three preliminary bond resolutions for refunding bonds, one from the University of Iowa and two from Iowa State University, are included.

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

ISU Recreational Facility

The Board is requested to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to $7,100,000 Recreational Facility Revenue Refunding Bonds, Series I.S.U. 2004.

The proposed refunding would be a current refunding, as the call date for the outstanding bonds is July 1, 2004.

All outstanding bonds of the Recreational Facility Revenue Refunding Bonds (originally issued in the amount of $13,060,000) would be called and principal payments made on July 1, 2004.

Debt service payments on the bonds are made from student fees and funds from the Department of Intercollegiate Athletics.

The estimated net future value and net present value savings from the refunding total approximately $380,000 and $350,000, respectively.

The maturity schedule for the bonds would not change with the refunding; the last maturity would be July 1, 2010.

SUI Academic Building

The Board is requested to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to $7,000,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2004.

Pursuant to §229 of House File 2627 of the 2002 General Assembly, the refunding needs to be done in coordination with the Tobacco Settlement Authority since principal payments for the bond issues proposed to be refunded are scheduled to be paid from tobacco bond proceeds through July 1, 2007.

Correspondence was sent to the Tobacco Settlement Authority requesting necessary approvals; authorization to proceed with the refunding was received. Consistent with the request of the Tobacco Settlement Authority, the July 1, 2005 maturities of the outstanding bonds would not be refunded.

The proposed refunding would be a current refunding. The 2006 – 2015 maturities of the Academic Building Revenue Bonds, Series S.U.I. 1993 (originally issued in the amount of $8,935,000, with a call date of July 1, 2003) and Series S.U.I. 1994 (originally issued in the amount of $1,345,000, with a call date of July 1, 2004) would be called and principal payments made on July 1, 2004.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue.

The estimated net future value and net present value savings from the refunding in future tuition replacement appropriations between 2006 and 2015 total approximately $550,000 and $470,000, respectively.

The last maturity for the refunding bonds will be 2015, consistent with the last maturity of the bonds to be refunded.

ISU Academic Building

The Board is requested to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to $8,900,000 Academic Building Revenue Refunding Bonds.

Two Academic Building Revenue Bond issues, both of which have a call date of July 1, 2004, are proposed to be refunded.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue.

Since different fund sources are currently being used to replace the university revenue, two separate series of I.S.U. refunding bonds are proposed to be issued.

Principal payments through July 1, 2007 on the I.S.U. Academic Building Revenue Bonds Series 1994, originally issued in the amount $6,545,000, are being paid with tobacco bond proceeds.

- The refunding of these bonds needs to be done in coordination with the Tobacco Settlement Authority (Authority) pursuant to §229 of House File 2627 of the 2002 General Assembly. Correspondence was sent to the Authority requesting necessary approvals and authorization to proceed with the refunding was received. Consistent with the request of the Authority, the July 1, 2005 maturities of the Academic Building Revenue Bonds Series I.S.U. 1994 would not be included in the refunding.

- The 2006 – 2020 maturities of these bonds, totaling $5,385,000, would be called and principal payments made on July 1, 2004.

- The estimated net future value and net present value savings from refunding of these bonds in future tuition replacement appropriations between 2006 and 2020 are approximately $810,000 and $620,000, respectively.

- The last maturity for this series of refunding bonds would be 2020, consistent with the last maturity of the bonds to be refunded.

Debt service payments on the I.S.U. Academic Building Revenue Refunding Bonds, Series 1994, originally issued in the amount of $5,315,000, are being paid with general funds.

- The 2005 – 2012 maturities of these bonds, totaling $3,075,000, would be called and principal payments made on July 1, 2004.

- The estimated net future value and net present value savings from refunding of these bonds in future tuition replacement appropriations between 2005 and 2012 are approximately $197,000 and $173,000, respectively.

- The last maturity for this series of refunding bonds would be 2012, consistent with the last maturity of the bonds to be refunded.

Kinnick Stadium Renovation

At the December 2003 Board meeting, the University presented the master plan for the renovation of Kinnick Stadium, constructed in 1929, and indicated that the final program statement, schematic design, detailed financial plan and project budget would be presented at a later date.

Design Options

As a result of the discussion at the December 2003 meeting, the University has provided five design options for the Board's consideration. The project costs for these options range from $19.6 million to $86.8 million.

According to the University's calculations, Options B – D would not generate enough revenue to pay the annual required debt service for the respective option, assuming that revenue bonds are issued to finance the project. (The University reports that Option A does not meet code and no calculations were made.)

Should the Board, at its meeting on March 10, 2004, choose design Option B, B1, C or D, the Board Office recommends that the University be directed to return to the Banking Committee with a financing plan for the Board selected design option.

According to the University's calculations, Option E would generate enough revenue to pay the annual required debt service without requiring the use of general fund dollars or additional student fees.

Option E would include the replacement of the south end zone seating area and construction of a new press box on the west sideline as well as improvements to the east and west concourses.

The University provided different bonding scenarios to finance Option E. The lowest total cost option would be the issuance of parity, student fee backed bonds and bond anticipation notes.

Should the Board choose Option E, the Board Office recommends the issuance of student fee backed parity bonds and bond anticipation notes since this method would be the least costly financial mechanism should revenue bonds be issued.

Jean A. Friedrich

Approved: Gregory S. Nichols

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