

Contact: Joan Racki

**SALE AND ISSUANCE OF
\$7,475,000 UTILITY SYSTEM REVENUE BONDS, SERIES I.S.U. 2006**

Action Requested: Consider adopting A Resolution directing the sale and authorizing and providing for the issuance of \$7,475,000 Utility System Revenue Bonds, Series I.S.U. 2006, and approving the Fifth Supplemental Indenture securing the payment thereof.

(ROLL CALL VOTE)

Executive Summary: The Board is asked to consider adoption of a resolution related to the sale and issuance of \$7,475,000 Utility System Revenue Bonds, Series I.S.U. 2006. At its February 2006 meeting, the Board authorized the Executive Director to fix the date or dates for the sale of the bonds.

Proceeds from the sale of the bonds would be used to fund the Utilities – College of Veterinary Medicine Chilled Water Plant project for which the Board approved the project description and budget at its November 2005 meeting. 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 \$565,000 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. 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 provision 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 Utilities – College of Veterinary Medicine Chilled Water Plant project would replace an existing cooling tower, chillers and associated equipment at the College of Veterinary Medicine chilled water plant. The existing chilled water equipment has exceeded its useful life and cannot support the additional chilled water requirements that will result with the College of Veterinary Medicine – Teaching Hospital and Diagnostics Laboratory Renovation – Phase 1 project.

The total bond issuance size of \$7,475,000 includes:

- project costs (estimated at \$6,750,000);
- debt service reserve (estimated at \$565,000);
- underwriters discount (estimated at \$105,000); and
- issuance costs (estimated at \$55,000).

The outstanding principal amount of Iowa State University Utility System Revenue Bonds is \$30.1 million.

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.

The receipt and opening of bids is scheduled for 10:00 a.m. on Monday, March 20, 2006, and the award is scheduled for later that day.

A copy of the resolution, which was prepared by Ahlers & Cooney, P.C. and reviewed by Springsted Inc., is available from the Board Office.

Bond specifics are as follows:

Average Maturity:	12.37 Years
Bonds Dated:	April 1, 2006
Interest Due:	November 1, 2006 and each May 1 and November 1 to maturity
Interest Exemption:	Exempt from federal and state taxes for individual purchasers who are residents of Iowa
Principal Due:	November 1, 2007 – 2026
Optional Call:	Bonds maturing on or after November 1, 2017 are callable commencing November 1, 2016 and any date thereafter at par
Denomination:	\$5,000 and integral multiples thereof