

BOARD OF REGENTS  
BANKING COMMITTEE

October 17, 2001

The Banking Committee of the Board of Regents met on Wednesday, October 17, 2001, at Iowa State University, Ames, Iowa.

Those present were:

Banking Committee members: Regents David Fisher (chair), Amir Arbisser, Mary Ellen Becker, David Neil, and Owen Newlin.

Others in attendance were:

Institutional representatives: Mary Sue Coleman (arrived at 11:13 a.m.), Douglas True, Ann Madden Rice, Cynthia Bartels, Terry Johnson, Gregory Geoffroy, Warren Madden, Mark Chidister, Gary Steinke (arrived at 11:25 a.m.), Sheryl Rippe, Robert Koob, Eunice Dell, Gary Shontz, William Johnson, Jim Heuer, Dennis Thurman (arrived at 11:16 a.m.);

Ken Haynie and Ed Bittle, Ahlers law firm;

Barry Fick, Springsted;

Mark Brubaker, Wilshire Associates;

Board Office: Pamela Elliott, Joan Racki, Deb Hendrickson and Barb Briggie.

Regent Fisher called the meeting to order at 11:04 a.m.

**APPROVE MINUTES OF THE SEPTEMBER 2001 BANKING COMMITTEE MEETING.**

MOTION: Regent Neil moved to approve the minutes of the September 12, 2001, Banking Committee meeting, as written. Regent Becker seconded the motion.  
MOTION CARRIED UNANIMOUSLY.

**RESOLUTIONS FOR THE SALE AND AWARD OF \$13,735,000 DORMITORY REVENUE BONDS, SERIES SUI 2001.**

Vice President True stated that last month the Banking Committee discussed the purpose for this sale which includes the renovation of the former dining area in Currier Residence Hall and fire protection upgrades in Currier, Stanley, Burge and Daum residence halls. The projects will modernize and provide a safer environment for students.

Mr. Fick reported on the bids received that morning, as follows: Bids were received from a consortium of groups led by U.S. Bancorp Piper Jaffray and from Bank of America Securities, LLC. The winning bid, received from U.S. Bancorp Piper Jaffray, had a true interest rate of 4.5183 percent. He said the bonds were sold at par. The interest rates mirror compensation earned by the underwriter.

Regent Fisher expressed concern about the growth of the groups included in the consortium for bidding purposes. He asked if there might come a time, as the consortium grows, that there are not enough bidders.

Mr. Fick said there were a combination of factors that resulted in the number of groups participating in the consortium. Vision Iowa bonds were sold last week as well as tobacco bonds. He noted that, even with those other recent bond sales, the Regent bonds still were able to receive interest rates that are lower than the Delphis AAA interest rates. The Board of Regents bonds were not adversely affected by the existence of the other bonds in the marketplace. There is increasing competitiveness and a more level playing field in the bond market. He said the continuing consolidation of the underwriting community is an issue of which he is aware.

Regent Fisher asked if the Bank of America Securities had ever been a bidder on Regent bonds. Mr. Fick responded that, in the last 3-5 months, Bank of America has been going out on its own. It had been included in other groups in the past.

Vice President True asked Mr. Fick to discuss the rating agencies' review of the bonds. Mr. Fick stated that both rating agencies reviewed the bonds. Moody's provided a rating of AA3. Both agencies commented on the stable enrollment and strong financial management of the University of Iowa. Hopefully, in a couple of years, there will be another opportunity to request an upgrade in the University's bond rating.

Mr. Haynie stated that the bonds have a term bond option, which the successful bidder exercised. In essence, there will be the same amount of principal paid but the option will be helpful to the bidder in marketing the bonds. For the Board of Regents, it is strictly a matter of form as the issuer.

MOTION: Regent Neil moved to recommend that the Board adopt the following resolutions: (1) A Resolution providing for the sale and award of \$13,735,000 Dormitory Revenue Bonds, Series S.U.I. 2001, 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 \$13,735,000 Dormitory Revenue Bonds, Series S.U.I. 2001, for the purpose of constructing necessary improvements to and equipping existing residence halls and related facilities, all located on the campus of The State University of Iowa, including funding the debt service reserve fund and paying costs of issuing the Bonds. Regent Newlin seconded the motion. MOTION CARRIED UNANIMOUSLY.

**PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$4,900,000 MEMORIAL UNION REVENUE REFUNDING BONDS, SERIES SUI 2001.**

Vice President True stated that this proposed bond sale was a refunding due to the continued decline in interest rates in recent weeks.

Mr. Fick stated that the Board's bond advisors recommended refunding up to \$4.9 million of 1986 University of Iowa Memorial Union Revenue Bonds to refund the outstanding debt of the Memorial Union. The refunding amount was less than the principal amount of the refunded bonds (\$5,025,000) since the debt service reserve fund, which is equal to the maximum annual debt service of a bond issue, can be reduced and the reduction applied toward payment of the outstanding principal. He said the refunding would reduce the overall debt service payments.

Regent Fisher asked if the bond advisors periodically review all of the outstanding Regent bonds for refunding. Mr. Fick responded affirmatively, stating that the Board's bond advisors monitor refunding opportunities on an ongoing basis. He noted that there may be more refunding opportunities in the next calendar year.

Vice President True referred to refunding opportunities with marginally good refunding capabilities. He asked about opportunities late in the process to make a different decision. Mr. Haynie said the Memorial Union refunding was a pretty good example of the type of factors that must be considered in such an event. The yield curve is very steep right now. The Memorial Union issue carried a fairly hefty call premium in an attempt to lower coupon interest rates when the bonds were sold, but this attempt was not very successful. The reserve fund is larger than it would need to be for a refunding issue but it is invested at interest rates of 5.76 percent which is well above the rate at the short end of the treasury market today. This is a current refunding. Immediate notice will be given for a call on January 1. If acceptable bids are not received in November, there would not be another opportunity to do this until late next spring. As it gets closer to the sale date, a decision will have to be made whether to go or not go forward with the sale.

Mr. Bittle stated that the resolution authorizes giving notice but provides that, if the sale does not take place, notice will have no force or effect.

Mr. Fick stated that bond advisors will monitor market interest rates and rerun the numbers to determine the net savings. The decision whether or not to sell the bonds can be made up to 1 to 2 weeks prior to the sale date.

MOTION: Regent Becker moved to recommend that the Board adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$4,900,000 Memorial Union Revenue Refunding Bonds, Series S.U.I. 2001. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.

**PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$5,900,000 FIELDHOUSE REVENUE BONDS, SERIES UNI 2001.**

Mr. Shontz stated that the proceeds from the bond sale would repair the structure and roof and provide other improvements to the UNI-Dome Field House, fund a reserve fund, and pay costs of issuance. There will be an increase in the Fieldhouse student fee. These will be parity bonds with the 1997 bonds.

Mr. Fick stated that his office has been working with University of Northern Iowa officials, the Board Office and Ahlers law firm on this bond sale for financing repairs to the University of Northern Iowa Fieldhouse. He believes the bonds can be successfully sold and marketed at favorable interest rates in November.

Regent Fisher asked about the revenue stream. Mr. Fick responded that the revenue stream for the bonds would come from a student fee, and net income from the Fieldhouse.

Mr. Haynie stated that the student fee would be equal to the annual debt service. Operating revenues would provide coverage over and above the amount of debt service.

MOTION: Regent Neil moved to recommend that the Board adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$5,900,000 Field House Revenue Bonds, Series

U.N.I. 2001. Regent Newlin seconded the motion.  
MOTION CARRIED UNANIMOUSLY.

**REIMBURSEMENT RESOLUTION, POWER PLANT – BOILER #10 REPAIRS (SUI).**

Vice President True requested adoption of a resolution which would permit the University to be reimbursed from a future Utility System Revenue Bond issue for major repair work to Boiler #10 in the main campus power plant.

Regent Fisher asked if what was proposed was a letter of intent. Vice President True responded affirmatively, noting that it is vital in order for the University to be reimbursed.

Regent Fisher asked why the University is choosing this avenue rather than proceeding with a bond sale at this time. Mr. Haynie said the Board has a full calendar of bond sales. Vice President True said the University has additional utility projects, as well. By aggregating the projects into a single bond sale, efficiencies are achieved.

Regent Neil asked if the other projects also involve repair work. Vice President True responded affirmatively. He said Boiler #10 has been one of the University's two baseline sources of energy. This project will replace big parts of the boiler to give it a longer life and make it more efficient. He believes there will also be some movement of utility systems on the arts campus. Most of what is done in the utility system is to make sure the systems work. There is repairing of systems and tunnels that were built 50 years ago.

**MOTION:**

Regent Becker moved to recommend that the Board adopt A Resolution declaring an official intent under Treasury Regulation 1.150-2 to issue debt to reimburse the University of Iowa Utility System for certain original expenditures paid in connection with specified projects. Regent Arbisser seconded the motion. MOTION CARRIED UNANIMOUSLY.

## **ANNUAL INVESTMENT AND CASH MANAGEMENT REPORT.**

Director Elliott stated that this report was originally scheduled to be presented at the September Banking Committee meeting. However, due to the closing of all national airports, Mark Brubaker of Wilshire Associates in Pennsylvania was unable to travel to present the quarterly report.

Mr. Brubaker distributed an update of the information provided for the annual report on investment and cash management. He reviewed Wilshire's response to the events of September 11 and its recommendations to its clients. He stated that, year to date through June, both of the endowment funds were down roughly 2.4 percent total. Rolling that forward through September 30, both funds are down 10 percent to 10-1/2 percent, year to date. Obviously, the third quarter was a difficult time for everyone. It was the third worst quarter for the Dow in history. Value and growth stocks went down about the same amount in September. He said U.S. equity markets in October have rebounded. International equities did not provide a safe haven.

With regard to the capital market update, Mr. Brubaker stated that the market looked bad before September 11, and looked worse after September 11. The country was heading into a recession. September 11 hastened the arrival of recession and exacerbated it. He said no one knows what will happen over the next six months, but most are predicting the country will come out of the recession in the second quarter of calendar year 2002. Wilshire Associates still believes that U.S. equities are an attractive asset class for long-term investors. He said the soundest advice they can give is to stick with the Board's rebalancing policy.

President Newlin asked if Wilshire Associates would not advocate changing the Board's 63/30/7 asset allocation. Mr. Brubaker stated that, every year, Wilshire puts together a report for all major asset classes. In January 2001, Wilshire's forward- looking return expectation for U.S. equities was 9-1/2 percent. In light of recent events, Wilshire has taken another look at the U.S. equity market. It lowered the return expectation to 9 percent. Fixed income forward looking expectations came down 1 percent. U.S. equities have become more attractive, but return expectations across the board have come down. Short-term rates have been reduced from 6-1/2 to 2-1/2 percent with more reduction to come, most likely. There has been significant recovery in the equity market. He referred to a graph which was provided in the handout of market returns following dramatic events. In most cases, a significant recovery has taken place following the dramatic events.

Mr. Brubaker discussed the risk-return sector plot. He said the performance of the Board's two endowment funds is well into the top quartile versus the performance of other endowments. He noted that the risk level for the University of Iowa was substantially lower than for Iowa State University. The numbers were just ran that morning so he had not had an opportunity to look further into the reason for the difference. In either case, he said the graph was indicative that the endowment funds are being compensated for the risk being taken. He said he would look into the difference in those numbers.

Vice President Madden asked if the endowment fund managers are following the appropriate disciplines. Mr. Brubaker responded that all fund managers are sticking to the disciplines. With respect to individual managers, he said Sanford Bernstein has dramatically outperformed the MSCI EAFE. Invesco has had a great year thus far. Seneca's year-to-date numbers are fine although the most recent quarter was extremely disappointing.

President Newlin said the information provided reinforcement for the idea of diversity in the funds.

Vice President True noted that the information presented indicated that Sanford Bernstein's performance was better than the MSCI EAFE benchmark. He asked how much better than the benchmark Sanford Bernstein had performed in this most recent period. Mr. Brubaker responded that anecdotal data indicated that Sanford Bernstein had beat the benchmark. He speculated that Sanford Bernstein's returns were slightly ahead of the benchmark.

Vice President True stated that he is becoming increasingly skeptical that any diversity is added through international investing. He asked if he was mistaken that, in the recent past, no diversity has been added through international investing.

Mr. Brubaker stated that Wilshire Associates still believes it makes sense to invest in international equities. In the 1970s and 1980s, international stocks outperformed U.S. stocks. He said the Board's 7 percent allocation to international equities is still appropriate.

ACTION: Regent Fisher stated the Banking Committee received the report, by general consent.

**SEMI-ANNUAL MASTER LEASE REPORT; STATUS OF REQUEST FOR PROPOSALS—MASTER LEASE AGREEMENT.**

Associate Director Racki stated that the Board has established a master lease agreement to provide short-term financing (3 to 10 years) for real and personal property. The aggregate amount for all leased real and personal property financed under the current master lease agreement through Wells Fargo Brokerage Services LLC (previously known as Norwest Investment Services) is limited to \$15 million, but the Board may modify this amount. The Board approves each financing utilizing the master lease agreement and Wells Fargo must agree to lease the property.

Associate Director Racki stated that leases issued under the current master lease agreement total \$12.4 million as of September 30, 2001, leaving \$2.6 million of the \$15 million available for use. She said the institutions did not enter into any new master lease agreements during the last six-month period. At its July 2001 meeting, the Board approved the refinancing of the master lease agreement for the University of Iowa University Services Building Equipment and Furnishings. The refinancing was finalized in August 2001. None of the institutions have indicated plans to use the master lease agreement within the next six months.

Associate Director Racki stated that current master lease agreement with Wells Fargo Brokerage Services LLC terminates on December 1, 2001. At its July 2001 meeting, the Board authorized a Request for Proposal for a new provider of the master lease agreement. She said Director Elliott and Mr. Fick would address the status of the Request for Proposals for a new master lease agreement.

Regent Fisher asked if the \$2.7 million available is enough. Associate Director Racki responded that the current lease expires on November 30, 2001. There has been discussion about increasing the amount beyond \$15 million in the new agreement.

Director Elliott stated that responses were received, one of which non-responsive. She asked that Mr. Fick report on the evaluation of the responses.

Mr. Fick stated that responses were received from GE Capital, US Bancorp (Oliver-Allen Technology Leasing); and Wells Fargo Brokerage Services, LLC. No Iowa banks responded, other than Banker's Trust which indicated it was not interested in responding. He said US Bancorp based its bid on a scale that was different from what was contemplated by the Request for Proposals. The US Bancorp bid an interest rate that was significantly higher than the other two. GE Capital also included a different interest rate scale than what is used currently and what was proposed in the Request for Proposals. GE Capital included a contingency that each transaction would be evaluated individually.

**ACTION:** Regent Fisher stated the Banking Committee, by general consent, (1) received the semi-annual report on lease purchases under the master lease agreement and (2) received the status report on the Request for Proposal for a provider of a master lease agreement.

**STATE AUDITOR REPORT – DEPARTMENTAL REVIEW OF SELECTED DEPARTMENTS (ISU).**

Director Elliott stated that this was another of the state audits that is regularly presented to the Banking Committee. This month the report related to selected departments at Iowa State University.

Vice President Madden stated that he would be pleased to answer questions.

President Newlin referred to the recommendation regarding the audit of Petty Cash/Change Funds to implement procedures to ensure that “surprise cash counts” or periodic close-out procedures are performed periodically by an independent person. Why was the recommendation not performed? Vice President Madden responded that the State Auditor’s office needs to follow up on the recommendation, and it has not done so.

Regent Fisher referred to the audit of Fixed Asset Records of AG 450 FARM. There was a recommendation to implement procedures to ensure compliance with the Procedures Guide regarding identification tags. He asked for an explanation of the recommendation.

Vice President Madden responded that it is a perpetual challenge to keep up with inventorying equipment. University officials continue to work with departments to do a better job of inventorying. He believes that investing in people centrally to perform that function would not be a wise investment.

**ACTION:** Regent Fisher stated the Banking Committee, by general consent, received the State Auditor’s report of eight departments within eight colleges/ offices at Iowa State University.

**INTERNAL AUDIT REPORTS – IOWA STATE UNIVERSITY.**

Director Elliott stated there were three new audits and two follow-up audits presented this month.

Director Rippke stated that, for all of the findings, management has planned corrective action. The internal auditors will ensure that management is making progress.

President Newlin said it was nice to have two pages of audits that are closed.

**ACTION:** Regent Fisher stated the Banking Committee, by general consent, (1) received the following internal audit reports from Iowa State University: Athletic Ticket Office, Human Subjects in Research , and Student Health Center; and (2) received the report on the Status of Internal Audit Follow-up.

#### **OTHER BUSINESS.**

Director Elliott stated that Mr. Fick wished to present the Banking Committee members with advance notice of an item that would be presented next month for consideration, having to do with bidding on bonds.

Mr. Fick stated that the concept of electronic bidding would make the bond sale process more efficient for additional bidders to enter into the bidding. The market concept of electronic bidding has been found to be an efficient and beneficial process for clients. Iowa law authorizes the use of electronic bidding. This matter will be presented to the Banking Committee in November. He noted that he has used electronic bidding for a number of his other clients.

Regent Fisher said he was pleased that consideration was being given to electronic bidding.

REGENTS BANKING COMMITTEE  
October 17, 2001

**ADJOURNMENT.**

The meeting of the Regents Banking Committee adjourned at 12:09 p.m. on  
October 17, 2001.



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Pamela M. Elliott  
Director, Business and Finance

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Robert J. Barak  
Interim Executive Director