

BOARD OF REGENTS
BANKING COMMITTEE

October 17, 2002

The Banking Committee of the Board of Regents met on Thursday, October 17, 2002, at the University of Northern Iowa, Cedar Falls, Iowa.

Those present were:

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

Others in attendance were:

Institutional representatives: Douglas True, Jo Bertram, Gregory Geoffroy, Benjamin Allen, Warren Madden, Mark Chidister, Robert Koob, Tom Schellhardt, Gary Shontz, Carla Kelley, Tim McKenna, Jim Heuer and Luann Woodward;

Barry Fick, Springsted, Inc.;

Ken Haynie and Ed Bittle, Ahlers law firm;

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

Regent Fisher called the meeting to order at 8:29 a.m.

APPROVE MINUTES OF THE SEPTEMBER 2002 BANKING COMMITTEE MEETING.

MOTION: Regent Newlin moved to approve the minutes of the September 19, 2002, Banking Committee meeting, as written. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.

SALE AND AWARD OF \$9,535,000 DORMITORY REVENUE REFUNDING BONDS, SERIES UNI 2002.

Vice President Schellhardt stated that, last month, the Banking Committee recommended and the Board approved authorization for the Executive Director to fix the date for the sale of the bonds to refund outstanding maturities of the 1964, 1967-C and 1992 Series of U.N.I. Dormitory Revenue Bonds. He said the bonds received ratings of A-2 from Moody's and A- from Standard & Poor's, which were similar to ratings of recent issuances.

Mr. Fick said he anticipated receipt of very favorable interest rates. The estimated savings was \$30,000 to \$40,000 per year.

Mr. Bittle stated that refunding of these bonds provided an opportunity to modernize the covenants.

Regent Fisher asked if the bonds would be double tax exempt. Mr. Bittle responded affirmatively.

Regent Arbisser asked for clarification of Mr. Bittle's statement that the bond covenants would be modernized. Mr. Bittle stated that the bonds issued in 1964 include provisions that accounting and finance officers struggle to satisfy. Mr. Haynie stated that bond covenants can only be amended forward. The universities are still governed by the covenants of parity bonds outstanding. With the current favorable bond market, the Board's bond counsel is able to eliminate the old covenants of the outstanding bonds by refunding those issues.

Regent Arbisser asked to be provided with specific examples. Mr. Haynie stated that the old bond covenants require accounting reports. There are restrictions on how the funds can be used. Vice President Madden said the old bond covenants require low deductibles for insurance. Mr. Haynie stated that, in the 1960s and 1970s, there was no after market disclosure mechanism; the bond resolutions themselves mandated various reports. The Securities and Exchange Commission developed continuing disclosure requirements so the universities now have two sets of continuing disclosure requirements. Mr. Bittle said there are also changes in the investment authority for the Regents related to the reserve funds.

MOTION:

Regent Newlin moved to recommend that the Board adopt the following resolutions, subject to receipt of acceptable bids: (1) A Resolution providing for the sale and award of \$9,535,000 Dormitory Revenue Refunding Bonds, Series U.N.I. 2002, 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 \$9,535,000 Dormitory Revenue Refunding Bonds, Series U.N.I. 2002, for the purpose of refunding the Dormitory Revenue Bonds, Series U.N.I. 1964 dated May 1, 1964; the Dormitory Revenue Bonds, Series U.N.I. 1967-C, dated January 1, 1967; and the Dormitory Revenue Bonds, Series U.N.I. 1992, dated January 1, 1992. Regent

Arbisser seconded the motion. MOTION
CARRIED UNANIMOUSLY.

**PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$25,000,000 HOSPITAL
REVENUE BONDS, SERIES SUI 2002.**

Vice President True introduced Jo Bertram, Senior Assistant Director of Finance and Accounting Services for the University of Iowa Hospitals and Clinics. He said Ms. Bertram works with Ann Madden Rice.

Vice President True stated that the proposed sale of Hospital Revenue Bonds is the first sale under recent authorization by the General Assembly and the Governor. He said there are a number of projects that officials of the University of Iowa Hospitals and Clinics wish to accomplish, which have been discussed with the Board of Regents. This bond issuance would finance a portion of the cost of the Center for Excellence in Image-Guided Radiation Therapy and three-stories of shell space above the Center. He stressed the importance of the sale for the University of Iowa Hospitals and Clinics and for the University of Iowa.

Mr. Haynie stated that representatives of Moody's and Standard & Poor's are coming to Iowa City to review the Hospital finances in depth in preparation for providing a rating for this new series of bonds. He said the bond rating agents will be looking closely at the University of Iowa Hospitals and Clinics to see why it is doing well in an industry that is, generally, not doing well.

Regent Neil asked if bond counsel anticipated any problems. Mr. Haynie responded that bond counsel is always anxious about visits by rating agencies; however, he is optimistic. He noted that there have been preliminary conversations with the rating agencies.

Regent Neil asked what a slippage in the Hospitals' rating would mean. Mr. Haynie responded that, in this market, a slippage in the bond rating would not mean very much in terms of the interest rates on the bonds. Because interest rates are so low, there would not be much difference in interest rates based on the ratings by the rating agencies. Twenty-five basis points would be a large slippage in the current, unusual market.

Regent Fisher noted that the amount of outstanding bonds of the University of Iowa Hospitals and Clinics is only \$2.7 million.

Mr. Fick stated that, last summer, Moody's reaffirmed the Hospitals' rating of AA-2; the University of Iowa's rating is AA-3 (AA-2 is higher than AA-3). He said Moody's

reaffirmed the Hospitals' rating with full knowledge that this \$25 million bond issuance was coming. Standard & Poor's has not rated the Hospitals since 1998. The Board's bond advisors do not anticipate any problems with the rating agencies because the bond market is so favorable. An underwriter stated to Mr. Fick that he did not think there would be any problem selling these bonds in the market.

Vice President True said it is not unusual for the rating agencies to visit occasionally. Representatives came to the University of Iowa Hospitals and Clinics about 5 years ago and brought hospital specialists, even though the Hospitals was not in the bond market at the time.

Mr. Bittle said the Hospitals will establish reserves for deductibles for insurance.

MOTION: Regent Newlin 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 \$25,000,000 Hospital Revenue Bonds (The State University of Iowa), Series 2002. Regent Arbisser seconded the motion. MOTION CARRIED UNANIMOUSLY.

SEMI-ANNUAL MASTER LEASE REPORT.

Associate Director Racki reviewed the semi-annual master lease report with the Banking Committee members. She said the master lease program has operated through Wells Fargo as a result of Request for Proposal processes held in 1991, 1996, and 2001. The Board approves each financing utilizing the master lease agreement and Wells Fargo must agree to lease the property. One lease in the amount of \$1 million for a scoreboard and video display system at Jack Trice Stadium at Iowa State University was entered into under the current agreement (effective January 1, 2002). She said leases issued under the 1996 agreement totaled \$12.4 million. University of Northern Iowa officials anticipate the use of master lease or vendor (if less costly) financing for approximately \$150,000 to pay for equipment from a grant, which requires that the equipment be financed through a lease purchase. None of the other institutions report plans to use the master lease agreement during the next six months.

Regent Fisher asked if Iowa State University has sponsors that provide a revenue stream for the scoreboard payments. Vice President Madden responded affirmatively, stating that the revenue stream for repaying the funds borrowed through the master lease are from advertising sponsors.

Regent Fisher asked for the length of commitment of the advertising sponsors. Vice President Madden responded that the commitment of one advertiser is for 10 years; the others are shorter. The Athletics Department is obligated to meet the cost of master lease repayment if the advertising revenues do not. He noted that the way technology changes, the scoreboard will probably be paid off and changed in less than 10 years.

Mr. Haynie stated that financing of Iowa State University's scoreboard and video display system was a torturous process because of tax exemption in light of the scoreboard's private income and private use. The scoreboard is partly computerized, partly highly-electronic and sophisticated video, and partly small plastic signs that are lit with a light bulb. In terms of total space, the commercial signs are a large portion, but, from a cost standpoint, the lighted signs are a smaller part of the whole because they are low tech.

ACTION: Regent Fisher stated the Banking Committee received the semi-annual report on lease purchases under the master lease agreement, by general consent.

INTERNAL AUDIT REPORTS – UNIVERSITY OF NORTHERN IOWA.

Director Elliott stated that this month's report included one new audit. She noted that the page of follow-up audits continues to get shorter.

Operations Auditor McKenna stated that Banking Committee members were presented with the University of Northern Iowa's cash on hand internal audit. He said the audit provided a reasonable assurance that internal control over cash and revenue on hand is reasonable and is functioning adequately. The auditors verified that cash funds and undeposited revenue is recorded, authorized, accounted for, controlled, secured, deposited timely, and is in compliance with applicable laws, regulations, policies, and procedures. He said the internal auditors accepted management responses pending a follow-up review which is currently in process.

Regent Fisher said it appeared that everything was under control.

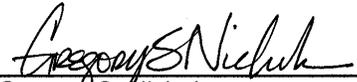
ACTION: Regent Fisher stated the Banking Committee, by general consent, (1) received the FY 2002 Cash on Hand internal audit report from the University of Northern Iowa and (2) received the report on the status of the internal audit follow-up reports, including two follow-up reports.

ADJOURNMENT.

The meeting of the Regents Banking Committee adjourned at 8:51 a.m. on October 17, 2002.



Pamela M. Elliott
Director, Business and Finance



Gregory S. Nichols
Executive Director

bb/f.winword/1002bank