

BOARD OF REGENTS
BANKING COMMITTEE

November 14, 2002

The Banking Committee of the Board of Regents met on Thursday, November 14, 2002, at Iowa State University, Ames, Iowa.

Those present were:

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

Others in attendance were:

Institutional representatives: Willard Boyd, Douglas True, Terry Johnson, Ann Madden Rice, Gregory Geoffroy, Warren Madden, Mark Chidister, Sheryl Rippke, Margaret Pickett, Robert Koob, Tom Schellhardt, Gary Shontz, William Johnson, Jim Heuer and Dennis Thurman;

Barry Fick, Springsted, Inc.;

Ken Haynie and Ed Bittle, Ahlers law firm;

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

Regent Fisher called the meeting to order at 7:30 a.m.

APPROVE MINUTES OF THE OCTOBER 2002 BANKING COMMITTEE MEETING.

MOTION: Regent Arbisser moved to approve the minutes of the October 17, 2002, Banking Committee meeting, as written. Regent Newlin seconded the motion. MOTION CARRIED UNANIMOUSLY.

SALE AND AWARD OF \$25,000,000 HOSPITAL REVENUE BONDS, SERIES SUI 2002.

University of Iowa Hospitals and Clinics Chief Financial Officer Rice discussed the efforts undertaken to prepare for the bond sale. Representatives of Moody's and Standard & Poor's conducted a thorough review of University of Iowa Hospitals and Clinics. She said it was a good process to go through on campus with the rating agencies. She noted that recently there have been more rating downgrades than upgrades of hospital-type revenue bonds. She was pleased that the University of Iowa Hospitals and Clinics' ratings remained the same.

Mr. Fick stated that the continuance of the bond ratings was a testament to the management of the University of Iowa Hospitals and Clinics and of the University of Iowa. He anticipated very strong response to the bond sale. He noted that Springsted had facilitated a hospital bond sale the previous day and those bonds received very favorable rates.

Mr. Bittle stated that the Board's bond counsel had spent four days at University of Iowa Hospitals and Clinics in preparation for the bond sale. He said many questions were asked of Chief Financial Officer Rice, who provided good answers during the rating agency visits and subsequent conference calls. The conclusion of the Board Office, bond counsel and the rating agencies is that Iowa has a wonderful asset in the University of Iowa Hospitals and Clinics. She said it is well run.

Regent Fisher asked if the bonds are double tax exempt. Mr. Bittle responded affirmatively. He said these are parity bonds with bonds that mature in 2003. The sale provides an opportunity to restructure the covenants to modernize the language. Bond counsel developed a modern, forward-looking bond resolution.

Regent Fisher asked if it was correct that the bond proceeds would finance a portion of the cost of the Center for Excellence in Image-Guided Radiation Therapy and the shell space above the Center, and will be located west of the Pomerantz Family Pavilion. Chief Financial Officer Rice responded affirmatively.

Regent Fisher asked if the Center will be the same height as the Pomerantz Family Pavilion. Chief Financial Officer Rice responded that the Pomerantz Family Pavilion is five stories and the Center for Excellence in Image-Guided Radiation Therapy will have three stories above grade.

MOTION:

Regent Arbisser moved to recommend that the Board adopt the following resolutions, subject to the receipt of acceptable bids: 1) A Resolution providing for the sale and award of \$25,000,000 Hospital Revenue Bonds, Series 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 \$25,000,000 Hospital Revenue Bonds, Series S.U.I. 2002, to pay the costs of constructing, improving, remodeling, repairing, furnishing, and equipping inpatient and outpatient facilities and patient care facilities, including

facilities for image-guided radiation therapy services and mechanical and other supporting facilities at the University of Iowa Hospitals and Clinics on the campus of the State University of Iowa, funding a debt service reserve fund, and paying the costs of issuing said Bonds. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

President Newlin suggested it may be appropriate to provide in bond sale write-ups whether or not the bonds are double tax exempt. Director Elliott responded that the Board Office will include that information for all future bond sales.

PROPOSED BOND ISSUANCE SCHEDULE FOR CALENDAR YEAR 2003.

Associate Director Racki stated that, annually, the Board establishes a bond issuance schedule for the following calendar year. The Board approved the calendar year 2002 schedule at its November 2001 meeting with revisions to the schedule approved in September 2002. She said the proposed schedule for calendar year 2003 is only a planning guide. It does not include any bonds that would require legislative authorization nor does it specifically include refundings which may be desirable should low interest rates continue. Sales are scheduled for every month the Board meets except April. She noted that approval of the schedule does not indicate that the Board Office has reviewed or recommended approval of all projects to be financed from the proposed sales or that the Board will approve the projects and the bond sale amounts.

With regard to refundings, Associate Director Racki said most of the bonds are callable on interest payment dates. Current refundings have to close 90 days prior to the interest payment dates. It is not cost effective in the current interest rate environment to do advanced refundings (refundings before the bonds are callable); therefore, current refundings were proposed.

Regent Fisher referred to the proposed September sale of University of Iowa residence system bonds, and asked for what the bond proceeds would be used. Vice President True responded that the bond proceeds would finance improvements to the Burge Hall dining facility and Mayflower residence hall infrastructure, as well as fire safety projects in the residence system.

Regent Fisher said it was his recollection that, at one time, University of Iowa officials had discussed constructing a new residence hall. He asked if that was still under consideration. Vice President True responded affirmatively. Last spring, University officials presented the Board with their plans for a west campus residence hall. He said

a portion of Quadrangle will be torn down when the new Pomerantz Center is available to house the academic advising personnel, in about 2-1/2 years. University officials would then like to build a 600-bed suite-style residence facility in that space. The new residence hall would be located between Hillcrest and Quadrangle.

Regent Fisher asked about the purpose of the October conversion of Iowa State University project notes. Vice President Madden responded that, in the last legislative session, the legislature approved the issuance of bonds to complete the Engineering Teaching and Research, Phase II project after de-appropriating funds previously approved and appropriated \$7 million from the Rebuild Iowa Infrastructure Fund for FY 2004 to repay the bonding. In July 2002, the Board issued \$7 million in project notes with a maturity of 18 months. The notes may be called for redemption on any date after August 1, 2003. If the FY 2004 appropriation is not available, Academic Building Revenue Bonds would need to be sold. The proposed October 2003 sale would convert the short-term notes into long-term debt.

MOTION: Regent Arbisser moved to recommend that the Board establish a schedule for the issuance of bonds for calendar year 2003, as presented. Regent Newlin seconded the motion. MOTION CARRIED UNANIMOUSLY.

PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$6,200,000 INDOOR MULTIPURPOSE USE AND TRAINING FACILITY REVENUE BONDS, SERIES ISU 2003.

Vice President Madden stated that Iowa State University officials requested approval to sell up to \$6.2 million in bonds for the Indoor Multipurpose Use and Training Facility. Repayment of the bonds would be secured by pledges and other revenue streams identified by the Athletic Department. Current student fees would be pledged as a guarantee. Pledge streams from Athletic Department donors will finance the majority of the facility.

Regent Fisher asked if the revenue stream would be from donors and student fees. Vice President Madden responded that the intention is to use donor revenue, but student fee revenue would provide the security for the bonds.

Mr. Fick stated that student fees are more stable.

Regent Fisher asked if the student fees are currently in place and are not allocated for other purposes. Vice President Madden responded that the fees are currently in place. The fee revenue provides part of the Athletic Department's operating revenue. He then

said it was his expectation that, in the future, there will be more projects proposed to be financed by pledges of gift money as external fund raising increases, and as large pledges are paid over a period of time. He said University officials would have probably recommended this kind of financing for the Gerdin College of Business Building if the donor had maintained his plan to pay the pledge over a period of years. However, the donor provided the gift up front.

Regent Arbisser asked if the student fees would decrease if donors pay their pledges up front. Vice President Madden said that the fee for intercollegiate athletics is substantially beyond what would be needed to meet the debt service obligation. A portion of the existing fee is being pledged for the project. Although, conceptually, the students and the Athletic Department could discuss reducing the fees, he believes it is not a very likely scenario. The Athletic Department has agreed to do some re-seating in the basketball arena. Lights were added to the football stadium. The Athletic Department has worked with the students to support those types of projects. He noted that athletics financing remains a very fragile enterprise and financing of athletics would be difficult without the student fee revenue stream.

Mr. Haynie stated that the bond resolution contains a release mechanism whereby student fees are retained long enough to make sure that gift funds are sufficient to pay the debt service. The student fee revenue is then released so there is not more money accrued where it is not needed. He said this provision takes some of the pressure off the amount of the student fee. The student fee is used for security purposes but not for cash flow.

Regent Arbisser asked if consideration is being given to additional projects where student fees will be pledged, which would ultimately mean increasing fees for students.

Vice President Madden said students committed two years ago to raise the fee for intercollegiate athletics another \$1.50, which is likely to come to the Board for approval next spring.

MOTION:

Regent Arbisser 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 \$6,200,000 Indoor Multipurpose Use and Training Facility Revenue Bonds, Series I.S.U. 2003. Regent Becker seconded the motion.
MOTION CARRIED UNANIMOUSLY.

PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$9,500,000 DORMITORY REVENUE BONDS, SERIES UNI 2003.

Vice President Schellhardt stated that the University of Northern Iowa's request to sell bonds was similar to that of Iowa State University. He said University officials requested that the Banking Committee recommend authorization to sell bonds to finance the Towers Center improvement project which was approved in June 2002.

Regent Fisher asked when the bonds for this project and for the above Iowa State University project would be sold. Mr. Haynie responded that the bonds were proposed to be sold in January. Generally, the practice of the bond industry is to "clean out" the inventory before year-end. Therefore, January is often a very good month to sell bonds because underwriters have few bonds in inventory. December is a bad month to sell bonds because of the pressure to close before year-end.

Regent Fisher said he had thought it may be a good idea to sell the bonds earlier because of the low interest rate environment.

Mr. Fick referred to the University of Northern Iowa dormitory revenue bond sale. He stated that, last month (October), the Board sold University of Northern Iowa Dormitory Revenue Refunding Bonds. Those bonds will be callable and repaid on January 1, 2003. There will be a number of holders of the existing University of Northern Iowa dormitory revenue bonds who will have cash available. He said it would be logical for those bond holders to reinvest in the University of Northern Iowa dormitory revenue bonds that will be coming up for sale.

Regent Arbisser asked what effect a conflict in the Middle East could have on the bonds. Mr. Fick said that is something that could disrupt the market. During the Gulf War and following the events of September 11, 2001, for example, there was only a very temporary dislocation in the market where activity slowed for a short while. In general, conflicts will be less favorable for the equities market and will keep interest rates low for the bond market.

MOTION:

Regent Arbisser 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 \$9,500,000 Dormitory Revenue Bonds, Series U.N.I. 2003. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

ISU MEMORIAL UNION AGREEMENT.

Vice President Madden said that this agenda item has been a long time in the development. Iowa State University officials recommended the Board adopt a resolution establishing a self liquidating Memorial Union Facility and approving a Memorandum of Agreement among the Iowa State Memorial Union Corporation, the Government of the Student Body at Iowa State University, and the Board of Regents, State of Iowa. The resolution provides that the Board of Regents take ownership of Memorial Union property and assume its outstanding debt of approximately \$4.7 million, which is supported by existing fees.

Vice President Madden stated that student leaders initiated a proposal to transfer the Memorial Union to the University because the current corporate structure does not allow for enough fund raising or bonding ability to provide funds for the extensive renovation of the facilities that the students desire. He said the Iowa State Memorial Union will be operated as a self-liquidating and revenue-producing facility. Funding support for renovations includes fund raising through the ISU Foundation and bonding supported by student fees. Students have proposed an additional \$15 per student per semester fee to be combined with future improvements fees to help finance the proposed renovation.

Vice President Madden stated that, in 1922, the Iowa State Memorial Union was first established as a separate, non-profit corporation. He said that structure is uncommon today among university student union facilities. In today's environment, the Memorial Union board has been unable to generate adequate financial support. Operating arrangements have changed. He noted that the Board of Regents has had authority all along to take over ownership of the Memorial Union by assuming its debt. He said he gave a great deal of credit to the student government leaders for creating this proposal. University officials wish to develop the facility into one that will serve Iowa State University into the next century. The current facility has a worn and tired look. Students would like for the ownership changes to become effective on January 1, 2003.

Vice President Madden stated that University officials have had similar experience in these types of transactions. University officials believe the proposal is in the University's best interest.

Regent Fisher said he "took his hat off" to the students; this is a monumental proposal. He stated that students have briefed him on their progress throughout the past year. He believes students presented a well-worked plan that makes sense, and that students will be the beneficiaries.

Regent Becker asked for an explanation of the relationship of the Iowa State Memorial Union Board of Directors to the Board of Regents. Vice President Madden responded

that, organizationally, the Memorial Union Board of Directors will report to the Vice President of Student Services. Vice President of Student Services Tom Hill has agreed to take the advice of the Board of Directors. If the Board of Directors is not satisfied with whatever issue resolution is determined appropriate by Vice President Hill, the Board of Directors can appeal to the University President. The Memorial Union Board of Director has retained the right to appeal to the Board of Regents.

Regent Fisher stated that the Board of Regents will have the ultimate oversight of the Memorial Union, through the University President.

Director Wright stated that all Memorial Union employees would become employees of Iowa State University under this agreement. He quoted the following from the Memorandum of Agreement:

All current Memorial Union employees will be transferred to the university staff under the same terms as applied in the Single Food Service merger. The details of this transfer will be agreed upon between the Vice President for Student Affairs, the Vice President for Business Affairs and the Memorial Union after the execution of this agreement.

Director Wright said the Iowa Department of Personnel worked with the University and AFSCME to reach agreement on how those employees will be treated. Agreement has been reached.

Regent Fisher asked if there will be a seamless transition for employees. Vice President Madden responded that the goal is for a seamless transition for employees. University officials have tried to assure employees that they will be treated fairly. He believes that employees will be better off in the proposed arrangement.

President Newlin referred to the approximate \$30 million cost for restoration of the Memorial Union, and asked from where the funds will come. Vice President Madden responded that the \$15 fee that is pledged will provide bonding of \$10 million to \$12 million toward the cost of renovation. He noted that the project will be phased in over a period of years. The bookstore is considering expansion of its space which will be paid by the bookstore. For the remaining \$20 million, University officials will request that the Foundation perform a feasibility study on fund raising for this purpose.

President Geoffroy said he anticipated that the Memorial Union renovation will be a component of the University's next major capital campaign. University officials intend to make a strong effort to raise private funds to complete the renovation.

Vice President Madden said he expects the renovation will take at least four to five years. University officials plan to address the life safety and handicapped accessibility issues early on.

President Newlin asked if the proposed new \$15 student fee will take care of the life safety and handicapped accessibility issues. Vice President Madden responded that University officials hope so.

Mr. Bittle congratulated the students for their work which culminated in this matter before the Banking Committee. He said Vice Presidents Madden and Hill had spent much time addressing this issue, as had Regent Fisher. Messrs Haynie and Fick and he spent one day with the students on this issue. He expects that it will be April 1 before the matter is finalized, including the transfer of the deed.

MOTION: Regent Arbisser moved to recommend that the Board adopt A Resolution establishing a self liquidating Memorial Union Facility, and approving a Memorandum of Agreement between and among the Iowa State Memorial Union Corporation, the Government of the Student Body at Iowa State University, and the Board of Regents, State of Iowa. Regent Becker seconded the motion. **MOTION CARRIED UNANIMOUSLY.**

COSTS OF BOND ISSUANCE.

Associate Director Racki stated that this month's report included the issuance costs for the July 2002 sale of Iowa State University Academic Building Revenue Project Notes, Series I.S.U. 2002.

ACTION: Regent Fisher stated the Banking Committee received the report on issuance costs related to the July 2002 sale of Iowa State University Academic Building Revenue Project Notes, Series I.S.U. 2002, by general consent.

APPROVAL OF BROKERAGE FIRM.

Director Elliott presented the recommendation to add another brokerage firm to the Board's list of securities brokers. She said the Board's investment policy requires that brokerage firms be approved by the Banking Committee and the Board before Regent institutions are permitted to use their services. Banc of America Securities LLC

requested inclusion on the Board's approved list of brokers. Banc of America Securities LLC, a subsidiary of Bank of America Corporation, has had primary dealer status for nine years with assets of \$53.3 million and \$1.5 billion in net capital as of December 31, 2001. Banc of America Securities specializes in taxable securities, specifically government and agency debt. She said the application from Banc of America Securities was reviewed by the university treasurers.

Regent Fisher asked if there was a requirement for pre-approval of bidders who wish to bid on Regent bonds. Mr. Haynie responded that there was no such requirement; a bidder may bid as long as they have money.

MOTION: Regent Becker moved to recommend that the Board (1) approve the addition of Banc of America Securities LLC for general brokerage services to the Board's list of authorized brokerage firms and (2) authorize the Executive Director to execute agreements authorizing the Regent institutions to use Banc of America Securities LLC for brokerage services. Regent Arbisser seconded the motion.
MOTION CARRIED UNANIMOUSLY.

INTERNAL AUDIT REPORTS – IOWA STATE UNIVERSITY.

Director Elliott stated that the list of follow-up audits continues to get shorter. The oldest audit on the list was less than a year old. She commended all of the internal auditors for their continued work in clearing up the outstanding internal audits.

Regent Fisher pointed out that the list of follow-up audits used to be 2 to 2-1/2 pages long and some audits went back four years.

Director Rippke stated that one Iowa State University follow-up internal audit, which was for the Iowa Braille and Sight Saving School, was closed. Two original Iowa State University internal audits were presented this month. The audit of Printing Services found no reportable observations. For the audit of Procurement Functions, the internal auditors accepted management responses pending a follow-up review. Recommendations were made to assure that sources for policies and procedures contain complete and authoritative guidance and to provide additional training to increase understanding of procurement policies.

Regent Fisher asked if there was anything that the Banking Committee members should know in fulfilling their fiduciary responsibilities. Director Rippke said the only additional item she would mention is that the University's internal auditors are performing a self-

assessment of their office operations. Someone from the University's audit committee and someone from the Banking Committee will be asked to answer some questions. If any of the Banking Committee members receive a questionnaire from Mark Chidister, that is the purpose.

Regent Fisher noted that Iowa has a newly-elected State Auditor, David Vaudt. He said it may be appropriate to have a conversation with Mr. Vaudt about the relationship between the State Auditor's Office and the Board of Regents. There have been some frustrations particularly regarding the cost of audits. He said he would be glad to meet with Mr. Vaudt to have that discussion.

President Newlin stated that MGT made some suggestions which addressed the cost of audits. He offered to join Regent Fisher in the meeting with Mr. Vaudt. One question President Newlin would like to have answered is whether there are other educational institutions in the state that are allowed to competitively bid for audit services while the Board of Regents institutions are restricted to audits being performed by the State Auditor.

Regent Fisher suggested that at the meeting with Mr. Vaudt, the Regent representatives determine whether Mr. Vaudt would be amenable to the Board of Regents seeking competitive bids for audit services. If so, the Board of Regents could pursue legislative action. He said the matter needs to be discussed and this was an appropriate time.

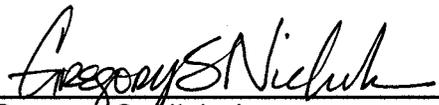
ACTION: Regent Fisher stated the Banking Committee, by general consent, (1) received the Printing Services and Procurement Functions internal audit reports from Iowa State University and (2) received the report on the status of internal audit follow-up reports, including three follow-up reports.

ADJOURNMENT.

The meeting of the Regents Banking Committee adjourned at 8:13 a.m. on
November 14, 2002.



Pamela M. Elliott
Director, Business and Finance



Gregory S. Nichols
Executive Director

bb/f.winword/1102bank