

Contact: Brad Berg

SALE AND ISSUANCE OF
\$16,500,000 UTILITY SYSTEM REVENUE BONDS, SERIES I.S.U. 2015

Action Requested: Consider adopting A Resolution providing for the sale and authorizing and providing for the issuance of \$16,500,000 Utility System Revenue Bonds, Series I.S.U. 2015, for the purpose of equipping and improving the utility system, funding a debt service reserve fund, and paying costs of issuance, and authorizing and approving the execution and delivery of the Eighth Supplemental Indenture.

(ROLL CALL VOTE)

Executive Summary: The Board is asked to consider adoption of a resolution related to the sale and issuance of \$16,500,000 Utility System Revenue Bonds, Series I.S.U. 2015.

Proceeds from the sale of the bonds would be used to partially fund the Utilities – Stoker Boiler Replacement project for which the Board, at its December 2012 meeting, approved the project description and budget, schematic design, financing plan and a resolution to issue debt and reimburse the University for prior expenditures. In August 2014, the Board approved a revised budget of \$42,000,000 for the project. This bond issue is the second of two series of bonds which would be sold to finance the project; the first bond issue was sold in October 2013. 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 \$1.1 million 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 provisions 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 – Stoker Boiler Replacement project would replace three existing coal-fired stoker boilers with three new gas-fired package boilers. The project would allow the University to replace aging equipment and comply with new environmental regulations. The boilers would be housed in a 20,000 gross square foot addition to the east side of the existing main power plant located on the northeast side of the main campus.

The total bond issuance size of \$16,500,000 and anticipated reoffering premium includes:

- project costs (estimated at \$15,310,300);
- debt service reserve (estimated at \$1,112,400);
- underwriters discount (estimated at \$247,500); and
- issuance costs (estimated at \$72,700).

The outstanding principal amount of Iowa State University Utility System Revenue Bonds is currently \$38.5 million. (Utility System bonds have a principal payment date of November 1st.)

The new bonds would be issued on 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 Wednesday, December 3, 2014, and the award is scheduled for later that day.

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

Bond specifics are as follows:

Average Maturity:	11.11 Years
Bonds Dated:	January 1, 2015
Interest Due:	November 1, 2015 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, 2015 – 2034
Optional Call:	Bonds maturing on or after November 1, 2025 are callable commencing November 1, 2024 and any date thereafter at par
Denomination:	\$5,000 and integral multiples thereof