The Banking Committee of the Board of Regents met on Wednesday, February 18, 2004, at the University of Iowa Hospitals and Clinics, Iowa City.

Those present were:

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

Others in attendance were (not an all-inclusive listing):

Board of Regents member Jenny Rokes;

Institutional representatives: David Skorton, Doug True, Terry Johnson, Carol Senneff, Cynthia Bartels, Gregory Geoffroy, Warren Madden, Joan Thompson, Margaret Pickett, Robert Koob, Tom Schellhardt, Jeanne Prickett, Jim Heuer, Luann Woodward;

Barry Fick, Springsted, Inc.;

Ed Bittle, Ahlers law firm;

Marc Friedberg, Wilshire Associates;

Board Office: Greg Nichols, Pam Elliott, Joan Racki, Deb Hendrickson, Diana Gonzalez, Barb Boose (arrived at 5:20 p.m.), Marilee Mitchell and Barb Briggle.

Regent Arbisser called the meeting to order at 5:00 p.m.

**APPROVE MINUTES OF THE DECEMBER 2003 BANKING COMMITTEE MEETING.**

Regent Arbisser asked for additions or corrections to the minutes. There were none.

**MOTION:** Regent Becker moved to approve the minutes of the December 15, 2003, Banking Committee meeting. Regent Downer seconded the motion. **MOTION CARRIED UNANIMOUSLY.**
FUND MANAGER CHANGES.

Mr. Friedberg presented an overview of the proposal for changing fund managers (as directed by the Banking Committee at its December meeting) and the recommendations for new fund managers.

Director Elliott presented the following Board Office recommendations to approve, for the institutional endowment portfolios:

1. The selection of Grantham, Mayo, Van Otterloo & Co. (GMO) as the new international equity fund manager.
2. The selection of Dodge and Cox as a new fixed income fund manager.
3. The transfer of Invesco’s domestic equity portfolio to Vanguard, the Board’s current large capitalization index fund manager.
4. An option as to whether an institution must split its fixed income portfolio, given its relative size and risk.
5. BlackRock as a contingent fixed income manager, should the selection of a new fixed income manager be necessary within the next year. The utilization of this manager would be subject to further approvals.

MOTION: Regent Neil moved to approve the recommendation, as shown above. Regent Downer seconded the motion.

Regent Forsyth asked for the rationale for utilizing a large capitalization index fund manager versus active management. Mr. Friedberg responded that the rationale was two-fold. First, Wilshire’s long-term investment philosophy is that of passive management. Second, the reason for terminating the Board’s relationship with Invesco was because of Securities Exchange Commission (SEC) issues. In that day’s Wall Street Journal, one of the firms that Wilshire would have recommended for the Board’s consideration was reported as possibly having SEC issues. Therefore, Wilshire recommends utilizing a large capitalization index fund manager “until the smoke clears”, and not as a long-term investment strategy.

VOTE ON THE MOTION: Motion carried unanimously.

Mr. Friedberg presented an overview of the quarterly investment and cash management report, noting that he would not address the performance of the managers that were being terminated. Areas highlighted for discussion included:

- Asset class returns (stocks outperformed bonds for the quarter while bonds outperformed stocks over the last 5 years);
- Individual managers (Seneca and LSV both underperformed for the quarter and for the one-year period. Some of the underperformance was due to style and size, and some was due to poor stock selections.);
- Domestic equity markets (earnings and price were negatively correlated);
- Fixed income (yield spread to treasuries; the Fed indicated it was in no hurry to raise interest rates);
- International stocks (performed well across the board; emerging markets performed better than developed countries);
- Total fund performance (asset allocation was right on the policy targets; the major reason for the underperformance was underperformance by the active managers);
- Composites of the portfolios.

ACTION: Regent Arbisser stated the Banking Committee received the investment and cash management reports for the quarter ended December 31, 2003, by general consent.


Vice President Schellhardt presented the University’s request that the bonds be sold to construct a two-story addition to the Student Health Center; renovate the existing office and clinic space; and provide infrastructure, fire safety, accessibility and other code upgrades.

Mr. Bittle stated the two resolutions were in order; Mr. Fick indicated that interest rates remained favorable and that he anticipated strong demand for the bonds.
MOTION: Regent Downer 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 $3,875,000 Student Health System Revenue Bonds, Series U.N.I. 2004, and approving and authorizing the agreement of such sale and award. (2) A Resolution establishing a self-liquidating and revenue-producing facility to be known as the “Student Health System” and authorizing and providing for the issuance and securing the payment of $3,875,000 Student Health System Revenue Bonds, Series U.N.I. 2004 to pay the costs of constructing, furnishing, and equipping an addition to the Student Health Center Building and improving, remodeling, and repairing the existing Student Health Center Building, including the debt service reserve fund, and paying costs of issuance. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.


Vice President Schellhardt presented the University’s request that the bonds be sold to provide partial financing for construction of the Arena, which would provide a 6,100-seat multipurpose venue to host athletic events, including men’s and women’s basketball games, volleyball matches, wrestling meets, and other special events.

Mr. Fick stated that interest rates remained favorable and that he anticipated strong demand for the bonds.

Mr. Fick addressed the rating analyses from both bond rating agencies for both issues of University of Northern Iowa bonds. He stated that Standard & Poor’s had adjusted the general rating of the University to reflect an A level with a negative outlook (a change from a stable outlook). Factors quoted for the change in outlook included vulnerability for state appropriations cutbacks and an enrollment decline. The dormitory bond rating was adjusted from A- to BBB+ with a negative outlook due to the decline in enrollment and occupancy. Moody’s rated the Student Health System Revenue Bonds A-2 (same as the University’s rating on other student fee-backed bonds) with a stable
outlook, and did not change its rating for the residence system debt. Mr. Fick anticipated no adverse effect from the bond rating adjustment of Standard & Poor’s.

Regent Neil asked if it was common to have a split in ratings between the two rating agencies. Mr. Fick responded that it is relatively common. In this case, the split was not significant. He said the ratings of the two rating agencies of A and A-2 are the exact same for the general rating of the University. The only difference between the ratings is in the outlook, an area the individual rating agency believes should be reviewed in the near-term future. The outlook has much less of an effect on the bonds than does the actual bond rating. With regard to the dormitory bonds rating, the difference between the two rating agencies is only one-half grade.

MOTION:

Regent Neil 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 $10,000,000 Field House Revenue Bonds, Series U.N.I. 2004, 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 $10,000,000 Field House Revenue Bonds, Series U.N.I. 2004, for the purpose of constructing, equipping, and furnishing an addition to the UNI-Dome Field House, and improving and remodeling the UNI-Dome Field House, funding a reserve fund and paying the costs of issuance. Regent Downer seconded the motion. MOTION CARRIED UNANIMOUSLY.

PRELIMINARY RESOLUTION FOR THE SALE OF UP TO $25,000,000 UTILITY SYSTEM REVENUE BONDS, SERIES S.U.I. 2004.

Vice President True presented the University’s request to sell bonds to fund the Upgrade of the Health Sciences Campus - Purified Water System project and a portion of the cost of the West Campus Chilled Water Plant Development/Expansion project.

Mr. Fick said he expected the bonds to be favorably received by the market.

Mr. Bittle said this would be the 9th supplemental indenture, the first of which was in 1985.
MOTION: Regent Forsyth 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 Utility System Revenue Bonds (The State University of Iowa), Series S.U.I. 2004. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.

RESOLUTION AUTHORIZING THE REDEMPTION OF OUTSTANDING IOWA STATE UNIVERSITY DORMITORY SYSTEM BONDS.

Vice President Madden presented Iowa State University’s plan to reduce the level of outstanding debt in the dormitory system.

Mr. Fick stated that removal of some relatively high interest debt from the books will improve the residence system’s operating margin.

Regent Forsyth expressed concern that having three dormitory buildings (Knapp Hall and Storms Hall which are currently vacant, and Helser Hall South which will be occupied through May 2006) vacant over multiple years will leave the University vulnerable. Perhaps if the University did not retire a large amount of dormitory system bonds, it would have the funds to tear down some of the vacant dormitories.

Vice President Madden stated that participants of some upcoming large summer conferences will be housed in some of the above-referenced dormitories. He noted that the years shown for demolition of the buildings are fiscal years; the demolitions will occur in the summers at the beginning of those fiscal years.

Regent Forsyth asked about tearing down all three of the above-referenced dormitory buildings this fall to remove the potential liability of an untoward event in an empty building. He then requested assurance that liability issues would not be a problem.

Vice President Madden responded that University officials will take all appropriate steps to assure the safety of those buildings when they are not occupied. The buildings are not an immediate structural risk.

Regent Forsyth expressed concern about a financial decision that involves maintaining three empty buildings on campus for four years.

Vice President Madden responded that the decision was a balance between revenues, operating costs, room and board rates, and repairs and improvements to other facilities. The proposal before the Banking Committee was determined to be the best way to
proceed. He anticipates there are inadequate revenues to demolish the buildings any earlier.

Regent Forsyth asked if it was University officials’ belief that early retirement of the referenced outstanding bonds will ensure that the critical bond coverage ratio, stipulated in the bond covenants, is met. Vice President Madden responded affirmatively, stating there would otherwise be a problem meeting the coverage requirements for the current fiscal year.

Director Elliott stated that, in March, the Board will receive presentations on residence systems rates, five-year plans, and FY 2005 budgets. She asked if Iowa State University officials are planning to bring an update to the Residence System Master Plan in March. Vice President Madden responded affirmatively.

MOTION: Regent Downer moved to recommend that the Board adopt A Resolution authorizing the redemption of outstanding Dormitory Revenue Bonds (Iowa State University of Science and Technology), Series 1964A, 1965A, 1966A, 1967A, and 1967G and directing publication of notice. Regent Forsyth seconded the motion. MOTION CARRIED UNANIMOUSLY.

COSTS OF BOND ISSUANCE.

Associate Director Racki reviewed the report on issuance costs for the September, October and November 2003 bond sales.

ACTION: Regent Arbisser stated the Banking Committee received the report on issuance costs for the September, October and November 2003 bond sales, by general consent.

APPROVAL OF MASTER LEASE FINANCING FOR WOI RADIO STATION.

Vice President Madden presented Iowa State University’s request to utilize master lease financing.

MOTION: Regent Forsyth moved, subject to Board approval of the purchase of radio station KIIC-FM, to recommend that the Board authorize Iowa State University to utilize master lease financing in an amount not to exceed $270,000. Regent Downer
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seconded the motion. MOTION CARRIED UNANIMOUSLY.

ADJOURNMENT.

The meeting of the Regents Banking Committee adjourned at 5:40 p.m. on February 18, 2004.

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