

BOARD OF REGENTS
BANKING COMMITTEE

March 10, 2004

The Banking Committee of the Board of Regents met on Wednesday, March 10, 2004, at Drake University, Des Moines.

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 members Sue Nieland and Jenny Rokes;

Institutional representatives: David Skorton, Doug True, Terry Johnson, Carol Senneff, Gregory Geoffroy, Warren Madden, Sheryl Rippke, Robert Koob, Tom Schellhardt, Tim McKenna, Jeanne Prickett, Jim Heuer, Luann Woodward;

Barry Fick, Springsted, Inc.;

Ed Bittle, Ahlers law firm;

David Vaudt, Andy Nielsen, Erwin Erickson and Dustin Blythe, State Auditor's office (excused following their presentation);

Board Office: Greg Nichols, Pam Elliott, Joan Racki, Deb Hendrickson, Barb Boose, Sheila Doyle, Andrea Anania, Elaine Newell and Barb Briggie.

Regent Arbisser called the meeting to order at 9:37 a.m.

APPROVE MINUTES OF THE FEBRUARY 2004 BANKING COMMITTEE MEETING.

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

MOTION:

Regent Neil moved to approve the minutes of the February 18, 2004, Banking Committee meeting. Regent Forsyth seconded the motion. MOTION CARRIED UNANIMOUSLY.

STATE AUDIT REPORTS.

State Auditor Vaudt presented state audit reports for each of the three universities. He next presented an overview of information technology audit work as well as past and future audit reviews of the three universities (Attachment A).

Regent Arbisser thanked State Auditor Vaudt for his presentation.

ACTION: Regent Arbisser stated the Banking Committee, by general consent, received the following Auditor of State reports on the review of selected general and application controls over the following:
University of Iowa – Purchasing and Accounts Payable System; Iowa State University – Tuition System; University of Northern Iowa – Modern Executive Management Financial Information System.

INTERNAL AUDIT REPORTS.

Internal audit directors presented overviews of their respective institution's internal audits.

University of Iowa Director Senneff led discussion about the cash handling project of the three universities.

Web training will be provided for employees who are handling cash. Following the training, employees will be asked to complete a self assessment and to identify areas where there may be control problems. Follow-up site visits will occur annually.

Cash handling training will be integrated into new employee orientation sessions at the University of Iowa.

At Iowa State University, necessary controls training is being developed for department chairs.

At the University of Northern Iowa, cash handling will continue to be checked across campus.

Discussion turned to the specific internal audits that were presented at this meeting.

Director Rippke referred to the notation that two follow-up reports are “on hold” because of a change in Iowa State University’s reporting methodology that occurred about a year and a half ago. She said the intent of the change was to place the responsibility on management for corrective action. The internal auditors not only review documentation and conduct interviews to confirm that the action has been taken, but also require management to attest to the work that has been done. By doing so, management acknowledges that it is aware of and agrees with what has been done. The onus and emphasis is being placed on management.

President Newlin requested comment about Iowa State University’s NCAA compliance audit of representatives of athletics interests (boosters). He specifically referred to the notation that the audit will remain in an “on hold” status pending further discussion by the Banking Committee. Director Rippke stated that the main concern in the audit was inadequate documentation to demonstrate compliance. Management has developed an action plan. The audit is on hold for determination of a follow-up plan.

Regent Downer addressed the target dates for implementation steps in the Dining Dollar\$ audit, and asked if the target dates are being met. Director Rippke responded affirmatively, noting that the follow ups have been completed.

Regent Arbisser noted that the internal audit reports of Iowa State University present the auditor’s “observation” whereas the other two universities present the auditor’s “recommendation”. Director Rippke explained that Iowa State University’s internal auditors work with management in a collaborative manner to find an optimum affordable solution. The previous method -- the auditors write recommendations, management writes responses, and the auditors respond to management’s response -- was inefficient. Discussion followed which indicated that, although the terminology is different, all three universities’ internal auditors work collaboratively with management to develop optimum affordable solutions.

ACTION: Regent Arbisser stated the Banking Committee, by general consent, (1) Received the following internal audit reports: University of Iowa: University Operations – Iowa House Hotel Business Process Review, NCAA Certification of Compliance Audit, NCAA Compliance – Complimentary Admissions, NCAA Rules Education Audit; Hospital Operations – HIPAA Privacy Compliance, Hospital Mail Room, Medical Records Security, OIG Exclusion Program; Special Reports – Cash Handling Training. Iowa State University: Dining Dollar\$ Program; Genetics, Development and Cell

Biology; Travel and Hospitality. University of Northern Iowa: Department of Residence – Administration; University-Wide Financial Business Procedures. (2) Received the report on the status of the internal audit follow-up reports, including eleven follow-up reports.

Director Elliott stated that the next three items were bond refundings on which the institutions and financial advisors have worked together.

PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$7,100,000 RECREATIONAL FACILITY REVENUE REFUNDING BONDS, SERIES I.S.U. 2004.

Vice President Madden stated the proposed refunding would lower the operating costs for the Department of Athletics.

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 \$7,100,000 Recreational Facility Revenue Refunding Bonds, Series I.S.U. 2004. Regent Forsyth seconded the motion. MOTION CARRIED UNANIMOUSLY.

PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$7,000,000 ACADEMIC BUILDING REVENUE REFUNDING BONDS, SERIES S.U.I. 2004.

Vice President True stated the refunding was approved by the State Treasurer's Office since principal payments for the bond issues are scheduled to be paid from tobacco bond proceeds. He noted that the state pays the debt service on the bonds.

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 \$7,000,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2004. Regent Downer seconded the motion. MOTION CARRIED UNANIMOUSLY.

PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$8,900,000 ACADEMIC BUILDING REVENUE REFUNDING BONDS.

Vice President Madden stated that refunding these bonds will lower the tuition replacement cost which will result in a savings to the state general fund.

MOTION: Regent Downer 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 \$8,900,000 Academic Building Revenue Refunding Bonds. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

FINANCING PLAN – KINNICK STADIUM RENOVATION.

President Skorton provided opening remarks on the University of Iowa's request to proceed with renovation of Kinnick Stadium. University officials requested the Banking Committee's support of the project and its continued monitoring of the process and progress.

Vice President True began a multi-presenter PowerPoint presentation (Attachment B). He introduced the project team and presented an overview of the process. The financial plan was presented at this meeting, while the schematic design would be presented during Board consideration of the University's capital register.

Martin Grenzebach of Grenzebach, Glier & Associates presented the philanthropic analysis.

Jay Lenhardt of CSL, Inc., presented the financial analysis.

Regent Neil asked if potential ticket purchasers were asked whether their decision to purchase tickets would be dependent upon the team having a winning season. Mr. Lenhardt responded that the majority of respondents indicated they would stick with the team through "thick and thin".

Athletic Director Bowsby provided more current financial data. Forty-four letters of intent for suites have been signed. Over 100 indoor club seats have been sold. A number of outdoor club seats have also been sold.

President Newlin asked what options are available should the demand for seats be greater than the availability of seats. Director Bowsby responded that seats will be assigned on a priority basis, with preference given to those with the longest history and best relationship with the University. Some indoor club seat space may be converted to

additional box seats (suites), although the indoor club seats are of the highest value. Those types of judgments will be made during the design development process.

Regent Downer asked if those seeking the longest leases would be granted first priority. Director Bowsby said the emphasis would be on long-term leases.

Regent Neil asked if the project budget anticipated increases in general admission ticket prices. Director Bowsby responded that ticket price increases were not anticipated for this purpose. University officials do not want to pass along the cost of this project to the average fan in the stand. He believes the tickets are already too expensive for the average family. University officials do not anticipate increasing ticket prices or instituting surcharges to obtain revenue for this project.

President Skorton stated that he wished to publicly acknowledge the strong job that Director Bowsby is doing in managing the finances of the Department of Athletics. University general funds to athletics have been cut while, at the same time, the Department is experiencing increased costs.

Vice President True presented the project revenue model, and stated that University officials recommended proceeding with Option E.

Kevin Monson of Neumann Monson Architects, discussed the construction options/alternatives (Options A through E). Option E is the complete project (project cost of \$86.8 million) as envisioned in the schematic design packet.

Barry Fick of Springsted, Inc., the Board's financial advisor, reported on the financial plan and schedule. Four series of bonds, each at or near \$25 million, will be issued to maximize the ability of the Iowa bond market to absorb the bonds, and to comply with the project construction schedule. The portion of the project for construction of the suites would probably be financed with taxable debt.

Regent Forsyth expressed his support for the project. He discussed how University officials had provided ample information to address all of his concerns. He was especially pleased that the financing plan allows for maximum flexibility going forward, particularly for the last \$50 million.

Mr. Fick said the first bonds would be sold early in calendar year 2005.

Regent Nieland requested assurance that the University will not be over-bonded as a result of this project, thereby preventing the University from being able to bond for a new academic building in the future. Mr. Fick responded that in Moody's affirmation of the University's AA2 stable outlook rating (issued for the March sale of utility bonds), it

indicated an expectation that the University's debt load would continue to increase based on management's projected borrowing plan.

Regent Nieland asked if that took into account only the University of Iowa or the entire enterprise. Mr. Fick responded that it only related to the University of Iowa, and did not affect the other two universities. President Skorton said the bond ratings are based on the assumption of continued robust borrowing on the part of the University.

Regent Forsyth asked if issuing bonds that are backed by student fees had been discussed with the student leaders. Nate Green, outgoing President of the University of Iowa Student Government, discussed the efforts he had taken to better understand the issues. He said he was confident that the University is taking a smart approach to the business plan so it would not be necessary to institute student fees. He had discussed this issue with Nick Klenske of the Graduate and Professional Student Government who was similarly confident in the University's plan.

Regent Neil asked for the "drop dead" date going forward. Vice President True responded that September 1 is a critical point for the project. A number of bid packages will be in process, well in advance of the first bond sale. By August or September, evidence will be seen on the site.

Vice President True expressed the University's commitment to regularly inform the Board about the status of revenues, bids and prices and to compare those with planned figures.

Vice President True discussed the conservative revenue factors related to the project (see pages 14-16 of Attachment B).

Director Bowlsby discussed the plan to convert letters of intent to contracts. He expects to be at the 80 percent budgeted figures by September 1, while expecting to achieve 100 percent. He also discussed the gift element of the project. University officials anticipate raising at least \$10 million in a five-year period while at the same time leveraging funds for academic scholarships. He stated that the best element of the project is that the future for student athletes has not been compromised.

Regent Arbisser thanked University officials for developing such a thorough presentation.

MOTION:

Regent Forsyth moved to provide direction to the Board on financing the Kinnick Stadium Renovation: (a) If the Board chooses Design Option B, B1, C or D, direct the University to return

to the Banking Committee with a financing plan for the Board selected design option. (b) If the Board approves proceeding with the University's recommended design option (Option E) for the renovation of Kinnick Stadium (project cost of \$86.8 million), recommend the issuance of parity, student fee backed bonds and bond anticipation notes as the least costly financial mechanism. Regent Downer seconded the motion.

Several Banking Committee members noted that their views and support of the project had changed since the project was first presented to the Board.

President Skorton thanked the Board Office staff, particularly Associate Director Racki, for their assistance. He requested that Regent Arbisser provide guidance following the meeting on the way in which University officials are to provide monthly updates.

VOTE ON THE MOTION: Motion carried unanimously.

SALE AND AWARD OF \$25,000,000 UTILITY SYSTEM REVENUE BONDS, SERIES S.U.I. 2004.

Mr. Fick reported that the bonds sold for a true interest rate of 3.919 percent, which was extremely low. The interest rate was projected to come in at 4.04 percent. The interest rate received was at or above the expected rate for the credit rating level of the bonds.

MOTION: Regent Newlin moved to recommend that the Board adopt the following resolution: A Resolution providing for the sale, award, and issuance of \$25,000,000 Utility System Revenue Bonds (The State University of Iowa) Series S.U.I. 2004, approving and authorizing the agreement of such sale and award and authorizing and approving the execution and delivery of the Ninth Supplemental Indenture, Tax Exemption Certificate, Continuing Disclosure Certificate, and other documents. Regent Downer seconded the motion. MOTION CARRIED UNANIMOUSLY.

ADJOURNMENT.

REGENTS BANKING COMMITTEE
March 10, 2004

The meeting of the Regents Banking Committee adjourned at 11:39 a.m. on
March 10, 2004.



Pamela M. Elliott
Director, Business and Finance



Gregory S. Nichols
Executive Director

bb/f.winword/304bank

Minutes of March 10, 2004, Board of Regents Banking Committee Meeting



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IT Audit Work at Regent Universities

IT audit work at the Regent Universities has been limited to reviews of general and application controls. These are not technology specific or MIS audits. We follow the guidance provided by the Federal Information System Control Audit Manual (FISCAM) and utilize questionnaires, observations, inquiry and testing to gain an understanding of the controls and determine if they have been placed in operation to aid in planning our financial audit.

The systems reviewed are rotated each year based upon our risk and control assessments. We tend to focus on applications where the audit evidence regarding the initiation, recording, processing or reporting of transactions is primarily electronic.

We also follow-up on prior audit findings as part of our fieldwork each year.

Past and Future Reviews

Iowa State University

Past reviews:

June/July 1998	General Controls
April/May/June 2000	Payroll system
March/April 2001	General ledger system
June/July 2002	Tuition system (general controls)
May/June 2003	Tuition system (application controls)

Future reviews planned:

Accounts receivable system (May/June 2004)
Purchasing system
Voucher payment system
Travel system

State University of Iowa

Past reviews:

June/July 1996	Payroll
May 1998	Payroll follow-up
June/July 2001	Millennium general ledger system
June/July 2002	Tuition system (limited to general controls)
June/July 2003	APPO system (purchasing/accounts payable)

Future reviews planned:

Accounts receivable system (June/July 2004)
Tuition system (application controls)
Human resource information system (HRIS)
Travel system

University of Northern Iowa

Past reviews:

June/July 2003	MEMFIS general ledger system and accounts payable system (Access, development & change, system software, service continuity)
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Future reviews planned:

MEMFIS general ledger system and accounts payable system (June/July 2004)
(Security program, segregation of duties, processing, output)
Payroll and human resource information systems
Grants and contracts

AGENDA

- Introduction President Skorton
- Project Team/
Process Overview True
- Market Study Components Consultants/Bowlsby
- Key Revenue Model Factors Consultants/True
- Construction Options Consultants/True
- Financing Plan/Schedule Consultants/True/Bowlsby
- Wrap-up True/Bowlsby
- Questions/Discussion All

Project Consultants

- o Design HNTB/Neumann Monson Architects
- o Construction Mgmt M.A. Mortenson Co.
- o Financial Analysis CSL Inc.
- o Philanthropic Analysis Grenzebach, Glier & Assoc. and UI Foundation
- o Debt Financing Advisors Springsted Inc. Ahlers Law Firm

Recommended Project

- South end zone replacement
- New press/viewing box construction
- East and west concourse improvements
- Restroom improvements/expansion
- Concession area improvements/expansion
- Accessibility improvement
- Stadium access/circulation improvement

Phasing of Construction

- Summer 2004 - prepare the site for construction
- Fall 2004 begin phase 1 - replacement of the south end zone stands and east concourse improvements; relocate Klotz Tennis Courts
- Fall 2005 begin phase 2 - replacement of the press box structure and the west concourse improvements
- Fall 2006 project completed

Bond Proceeds

Project Cost	\$ 86,825,000
Capitalized Interest	\$ 2,799,036*
Debt Service Reserve	\$ 8,488,000
Issuance Cost	\$ <u>1,887,964</u>
Total Bonds Issued	\$100,000,000

* Reduced by use of bond anticipation notes

Market Study Components

- 50 personal interviews
 - Capital gifts of \$10 million
- 775 random telephone surveys
- Assessment of local market characteristics
- Analysis of comparable facilities
- Analysis of competitive facilities

CSL/Grenzebach Findings

Demand estimates:

- 40 suites
- 310 indoor club seats
- 1,150 outdoor club seats

Price Points:

- Suites: \$45,000 - \$85,000 per year
- Indoor Club Seats: \$5,000 per year
- Outdoor Club Seats: \$1,900 - \$2,600/yr.

Capital Gifts: \$10 million

Revenue Model

40 Suites	\$2,230,000
310 Indoor Club Seats	\$1,550,000
1,150 Outdoor Club Seats	<u>\$2,676,000</u>
Total Premium Seating Rev.	\$6,456,000
Priority Seat Gift Program	\$1,920,000
Concession Sales Increase	<u>\$ 250,000</u>
Total Revenue	\$8,626,000

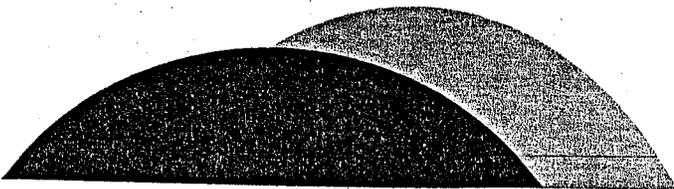
Revenue Model (cont'd)

Total Revenue	\$8,626,000
Less 20% Discount	<u>\$1,697,000</u>
Revenue before offsets	\$6,929,000
Less revenue offsets	<u>\$ 787,000</u>
Net Revenue	\$6,142,000
Plus: Gift Income	<u>\$1,000,000</u>
Revenue for Debt Service	\$7,142,000

Revenue Model (cont'd)

Average Funding Ratio 1.17

Average Funding Ratio
w/o 20% Discount 1.47



Construction Options/Alternatives

<u>Option</u>	<u>Cost (\$M)</u>	<u>Funding Ratio</u>
A	does not meet code	
B	\$28.4	0.22
C	\$40.2	0.34
D	\$48.5	0.45
E	\$86.8	1.17

Financing Plan/Schedule

- Issue \$100 million in parity debt
- Historical Coverage Ratio:
 - \$50 million based on current net revenues
 - \$50 million after new revenues in place
- Bond Anticipation Notes (BAN)
 - Use to finance final \$50 million through construction period
 - Maximum final maturity 2011

Backup Student Fee Pledge

- Parity bonds with Arena debt
- Consistent with pledges for athletic projects in BigTen
- Springsted equates value to 0.5% in interest rate
- Current debt advance refunding needed
- Without pledge, additional cost to project of \$10.66M or \$6.68M in present value cost

Conservative Factors

- 20% discount in projected premium seating revenues
- Substantial progress in marketing premium seats before first major contracts and bonds
- Lowest projection of capital gift revenue used
- Gift income spread over 10 years – not 5 years

Conservative Factors (cont'd)

- Concession increases substantially discounted
- Priority seating gift program substantially discounted
- Projected interest rate on bonds 1% higher than present
- Rainy day fund for athletics operations in leaner years
- Actual seat loss expected to be less than 1,000; used 1,455 in proforma

Conservative Factors (cont'd)

- No interest earnings from:
 - gift balances
 - cash balance in construction fund
 - revenues in excess of debt service
- No revenue included from:
 - Scoreboard/sponsorship
 - Ticket surcharge
 - 7th game in future years
 - Off-season rental of club suite area