

BOARD OF REGENTS
BANKING COMMITTEE

May 15, 2002

The Banking Committee of the Board of Regents met on Wednesday, May 15, 2002, at the Iowa Braille and Sight Saving School, Vinton, Iowa.

Those present were:

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

Others in attendance were:

Institutional representatives: Mary Sue Coleman, Douglas True, Ann Madden Rice, Carol Senneff, Gregory Geoffroy, Warren Madden, Mark Chidister, Robert Koob, Gary Shontz, Jim Heuer, LuAnn Woodward and Martin Blind;

Ken Haynie and Ed Bittle, Ahlers law firm;

Mark LeMay, Springsted; and

Board Office: Greg Nichols (arrived at 10:35 a.m.), Pamela Elliott, Joan Racki, Deb Hendrickson, and Barb Briggie.

Regent Fisher called the meeting to order at 10:30 a.m.

APPROVE MINUTES OF THE APRIL 2002 BANKING COMMITTEE MEETING.

MOTION: Regent Neil moved to approve the minutes of the April 17, 2002, Banking Committee meeting, as written. Regent Becker seconded the motion.
MOTION CARRIED UNANIMOUSLY.

RESOLUTIONS FOR THE SALE AND AWARD OF \$6,110,000 PARKING SYSTEM REVENUE BONDS, SERIES ISU 2002.

Mr. LeMay said he was pleased to report the results of the bids for \$6,110,000 Parking System Revenue Bonds, Series ISU 2002. The bonds were rated A by S&P and A1 by Moody's. Originally, four prospective bidders expressed interest; however, only two bidders submitted bids. Dain Rauscher submitted a bid with a true interest rate of 4.675984 percent. U.S. Bancorp Piper Jaffray submitted a bid, which was recommended to be accepted, for 4.642367 percent.

Regent Fisher asked if U.S. Bancorp Piper Jaffray had been a successful bidder in a recent Regent bond sale. Mr. LeMay responded that it had not been the lead bidder in a recent bond sale. Associate Director Racki stated that, last month, Bank of America Securities and Solomon Smith Barney were the successful bidders.

Vice President Madden stated that Iowa State University officials were pleased with the very good interest rate that was received.

Mr. LeMay stated that he had checked each maturity interest rate against Delphis and found that the maturities beat the Delphis AAA rating.

Mr. Haynie said the 2022 maturity of the U.S. Bancorp Piper Jaffray bid was 5 percent and the Delphis rate is 5.10 percent for AAA-rated bonds. He pointed out that the successful bidder had exercised the term bond option. The 2018 and 2019 maturities will be combined to mature in 2019. The last three years will be combined to mature in 2022. He noted that this was a new enterprise and utilized a first-time bond resolution. Since the parking bonds are not student fee-supported, the bonds are viewed more critically by the rating agencies. The expectation was that the bonds will not be rated quite as high as other university bonds.

Regent Fisher asked where the single-level parking deck will be located. Vice President Madden said the parking deck would likely be located in the area to the east of the exit from the Memorial Union Parking Ramp at lot 50B. The project will double the parking capacity of that lot. A second parking structure is anticipated to be built on the west side of the campus.

President Newlin asked if the area for the proposed parking deck floods. Vice President Madden responded that creek flooding does not occur in that particular area.

Regent Fisher asked if there would be parking improvements around the stadium. Vice President Madden responded affirmatively. There will be paving on the east side of the stadium for parking. Fill from the College of Business and Carver Co-Lab sites will be used, and drainage will be installed.

Vice President Madden stated that he was very pleased with the interest rates. He said the students have endorsed parking improvements and parking rate increases, and see it as a real improvement.

Regent Fisher asked for an update on construction of the golf course near the stadium. Vice President Madden responded that the golf course is a private development. He said

the irrigation system was just finished and seeding of the grass is taking place. If there is a good growing season, golf might be played on the course late this fall; however, that is optimistic. Otherwise, the facility will be open for business next spring.

Mr. Bittle thanked Associate Director Racki and Assistant Vice President Pickett for their assistance in developing the bond resolution.

Vice President Madden stated that, in calls the previous week with the bond rating agencies, there were more questions about the state's financial situation than the University's. As a new enterprise, the only pledge for the bonds is parking revenues.

Regent Neil asked, if Iowa had been in what the bond rating agencies would consider a precarious position, would that have affected this bond rating? Vice President Madden responded affirmatively.

Regent Neil said the bond rating agencies must have a lot of faith in the Iowa economy. Vice President Madden stated that Iowa State University officials put as good a light as possible on where they believe the state is headed.

MOTION: Regent Neil moved to recommend that the Board adopt the following resolutions: (1) A Resolution providing for the sale and award of \$6,110,000 Parking System Revenue Bonds, Series I.S.U. 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 \$6,110,000 Parking System Revenue Bonds, Series I.S.U. 2002, to pay the costs of constructing, extending, improving and equipping the University parking facilities on the campus of the Iowa State University of Science and Technology, funding a debt service reserve fund, and paying the costs of issuing said Bonds.. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO EFFECT THE ISSUANCE OF UP TO \$7,975,000 UNIVERSITY OF IOWA FACILITIES CORPORATION REVENUE BONDS (MEDICAL EDUCATION AND BIOMEDICAL RESEARCH FACILITY PROJECT), SERIES 2002.

Vice President True stated that the proposed resolution would enable the third sale in a series of bonds for the Medical Education and Biomedical Research Facility. University officials have worked with bond counsel to structure the sale to issue the bonds as single tax-exempt bonds. The sale of bonds will also eliminate the need for master lease financing for special locks and emergency generators. He said this was the last in the series of bonds to support the Medical Education and Biomedical Research Facility.

Regent Neil asked if funding of the underground imaging center was included in the project. Vice President True responded that facility was not yet under construction and would be financed in part by UIHC bonds.

Mr. Bittle referred to a resolution that was submitted to the University of Iowa Facilities Corporation, and asked if action still needed to be taken. Vice President True responded that its executive committee had taken informal action.

MOTION: Regent Becker moved to recommend that the Board adopt A Resolution authorizing the Executive Director to take any and all action deemed necessary to effect the issuance of not to exceed an aggregate principal amount of \$7,975,000 University of Iowa Facilities Corporation Revenue Bonds (Medical Education and Biomedical Research Facility Project), Series 2002. Regent Neil seconded the motion.

Regent Becker asked for clarification of the involvement of the University of Iowa Facilities Corporation. Vice President True responded that this was a pass-through financing. The University of Iowa provides the credit and the cash flow. The Facilities Corporation is a separate entity used for this type of financing.

Mr. Haynie stated that the University of Iowa Facilities Corporation is a not-for-profit sole-purpose corporation to issue bonds on behalf of the University of Iowa. The facility being financed will be owned by the Facilities Corporation until the bonds are retired. The facilities are on University land and are leased to the Facilities Corporation.

Regent Becker asked for the purpose in utilizing the Facilities Corporation. Mr. Haynie responded that the University of Iowa Facilities Corporation was created in response to an Internal Revenue Service ruling of 1963 which approved tax exemption for financings done for "on behalf of" relationships. There are a few states in which local entities cannot sell their own bonds. The ruling permits the use of lease revenue financing for facilities that

generate or provide the location to generate revenue that can be applied against the debt service.

Regent Fisher said the University of Iowa Facilities Corporation is merely a facilitator entity.

Mr. Haynie noted that, for this particular building, the state of Iowa provided a \$27 million state appropriation for construction of the building with understanding that the balance would be funded by University financing.

VOTE ON THE MOTION: MOTION CARRIED UNANIMOUSLY.

COSTS OF BOND ISSUANCE.

Associate Director Racki stated that the continuing report on the cost of bond issuances included costs for the January 2002 sale of Iowa State University \$14,980,000 Dormitory Revenue Bonds, and the February 2002 sale of University of Iowa \$15,000,000 Utility System Revenue Bonds. She indicated where in the meeting materials the detailed costs could be found. The report included historical sale information.

Regent Fisher asked if the utilization of two bond rating agencies was necessary, noting that there was quite a difference in cost. Mr. LeMay responded that some people pay more attention to one agency than to another. He said it is possible to sell bonds with a single rating. The financial advisor could test a sale with one rating and see what the result would be.

Regent Fisher noted that a bond sale for the University of Iowa had only one rating. Vice President True responded that, at that time, the University issued variable rate bonds for the utility system. Moody's was selected to work with the University, almost as a partner. Moody's was the rating agency for the Letter of Credit holder, the Bank of Tokyo. He said those were the only exceptions to having two rating of which he was aware.

Mr. Haynie stated that there is an advantage to having two ratings when the rates are split.

ACTION: Regent Fisher stated the Banking Committee received the report on the issuance costs related to Dormitory Revenue Bonds, Series S.U.I. 2002, and Utility System Revenue Bonds, Series S.U.I. 2002, by general consent.

INTERNAL AUDIT REPORTS.

Director Elliott stated that this month's report included nine internal audit reports as well as the status of follow-up internal audit reports. She noted that the University of Iowa Hospitals and Clinics patient accounts internal audit from 1996 was replaced/closed. Two new audits were presented in lieu of that audit. She referred to the University of Northern Iowa's internal audit follow-up of grants and contracts accounting, about which the Banking Committee members inquired last month, and said the University's expectation was that the audit would be completed in June 2002.

Director Senneff stated that, since she last met with the Banking Committee members, the University of Iowa Internal Audit Office submitted eight new internal audit reports including a report for the Iowa School for the Deaf. She said the biggest issue for the University of Iowa internal auditors was completion of follow-up and performance of new audits for the patient fiscal and registration system at the Hospital.

Regent Fisher said it was good to see the 1996 internal audit finalized.

ACTION: Regent Fisher stated the Banking Committee, by general consent, (1) received the following nine internal audit reports: University of Iowa – Hospital Operations – Food and Nutrition Gift Card Program Audit, Patient Fiscal and Registration Services, Patient Fiscal and Registration Services – Credit Balances; University of Iowa – University Operations, Iowa School for the Deaf Leases, NCAA Compliance Audit – Sports Camps & Clinics, Student Billing Processes, University Bookstore, University Video Center; Iowa State University – Overview of Iowa Braille and Sight Saving School Annual Review; and (2) receive the report on the status of internal audit follow-up reports, which included one follow-up report: College of Dentistry – Business Office Cash Handling.

ADJOURNMENT.

The meeting of the Regents Banking Committee adjourned at 11:01 a.m. on May 15, 2002.



Pamela M. Elliott
Director, Business and Finance



Gregory S. Nichols
Executive Director