

BOARD OF REGENTS
BANKING COMMITTEE

May 22, 2003

The Banking Committee of the Board of Regents met on Thursday, May 22, 2003, at the University of Iowa, Iowa City.

Those present were:

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

Others in attendance were:

Board of Regents member John Forsyth;

Institutional representatives: Douglas True, Mark Schantz, Terry Johnson, Carol Senneff, Debra Johnston, Mike Finnegan, Ann Madden Rice, Gregory Geoffroy, Warren Madden, Robert Koob (arrived at 8:35 a.m.), Tom Schellhardt, Mike Hooley, and Luann Woodward;

Mark LeMay, Springsted, Inc.;

Ed Bittle and Ken Haynie, Ahlers law firm;

Board Office: Greg Nichols (arrived at 9:02 a.m.), Pamela Elliott, Joan Racki, Barb Boose, and Dotti Hale.

Regent Arbisser called the meeting to order at 8:30 a.m.

APPROVE MINUTES OF THE APRIL 2003 BANKING COMMITTEE MEETING.

MOTION: Regent Neil moved to approve the minutes of the April 10, 2003, Banking Committee meeting, as written. Regent Becker seconded the motion.
MOTION CARRIED UNANIMOUSLY.

RESOLUTIONS FOR THE SALE AND AWARD OF \$9,360,000 DORMITORY REVENUE BONDS, SERIES ISU 2003A.

Vice President Madden stated that, later that morning, bonds would be sold for which Iowa State University officials hoped to receive favorable interest rates. The bond proceeds would be used to renovate Buchanan Hall.

Mr. Bittle said the Banking Committee would be asked to recommend Board adoption of two resolutions related to this sale.

Mr. LeMay presented a summary of the national bond markets for the past month. He said interest rates have been declining, approximately 40 basis points in the past four weeks; therefore, he was optimistic about this sale. Moody's and Standard & Poor's both confirmed the University's rating—Moody's rating of A-1 and Standard & Poor's rating of A. One bidder signed up on the electronic bidding system and two bidders submitted good faith deposits.

Regent Arbisser asked for comments on recent occurrences at the federal and state levels that might impact on the bond market. Mr. Bittle stated there was nothing in the Iowa Senate's draft tax bill, which he had reviewed the previous day, that would change the tax-exempt status of Board of Regents bonds. He was aware of discussion about the Iowa Values Fund bonds being double tax-exempt, which would put many such bonds in the market. Two to three years ago, Ken Haynie, in consultation with Barry Fick of Springsted, prepared a memorandum about the impact of additional double tax-exempt bonds in the Iowa market. He has asked that Mr. Haynie and Mr. Fick provide an update to information provided previously on the impact of additional Iowa double tax-exempt bonds.

Regent Downer asked if additional double tax-exempt bonds, such as the underground tank fund, has had a discernible impact on the interest rates of Regent bonds. Mr. Bittle said there was not a noticeable impact because the Regent bond issues are in the \$20 million to \$25 million range. The Board's bond advisors do not recommend the Board sell more bonds in any one month than the market can absorb. Mr. Haynie said Regent Downer's reference to the underground storage tank fund was a very good example. He stated that the first bond issue for that program, in the mid-1990s, was for \$50 million and was attempted to be sold in two parts. One issue was to be sold at retail in Iowa and the other issue was to be sold in the national market, mostly to institutions. The bonds had not been priced in the national market which, essentially, "gave away" the tax exemption benefit. He noted that the Iowa individual market has a limited capacity. The Board of Regents has a very efficient bond program. The bonds are priced to sell and the Board is volume sensitive as it impact rates.

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 \$9,360,000 Dormitory Revenue Bonds, Series I.S.U. 2003A, 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 \$9,360,000 Dormitory Revenue Bonds, Series I.S.U. 2003A, for the purpose of constructing, remodeling, reconstructing, repairing, furnishing and equipping a residence hall and related facilities and making other necessary improvements to existing residence halls and related facilities, all located on the campus of the University, including funding the debt service reserve fund, and paying the costs of issuance of the Bonds. Regent Downer seconded the motion. MOTION CARRIED UNANIMOUSLY.

RESOLUTION AUTHORIZING AND PROVIDING FOR THE ISSUANCE OF UNIVERSITY OF IOWA FACILITIES CORPORATION (POMERANTZ CAREER CENTER) \$11,325,000 REVENUE BONDS, SERIES 2003.

Vice President True stated that the bonds would be sold by the University of Iowa Facilities Corporation, a wholly-owned subsidiary of the University of Iowa Foundation, as a pass-through financing. Facilities Corporation bonds provide bond holders with deductibility from federal income tax. This type of financing has been used for a number of buildings on the University's medical campus. In this particular project, the Facilities Corporation bonds will help finance the Pomerantz Career Center project through 2010, at which time the principal will be repaid through gifts to the University of Iowa Foundation. The project, which is approximately 69,000 square feet, would house the Executive MBA program, the University's academic advising program, and the admissions and visitors center. The decrepit auditorium in the Chemistry Building would be replaced with a 400-seat auditorium in the Pomerantz Career Center. The building would house three other major (80-seat) classrooms and eight general assignment classrooms.

Mr. Bittle stated that the University of Iowa Facilities Corporation will lease the facility back to the University. The lease payments are sufficient to pay principal and interest on the bonds and to maintain the required reserve fund. He said the bonds will be issued under an indenture with Wells Fargo. Bond counsel has reviewed the gift arrangements and it appeared to be in order. A Memorandum of Understanding between the University and the Foundation will ensure that the gift obligation is consistent with the maturity of the bonds. The bonds will be single tax-exempt and sold in the national market on behalf of the Board of Regents.

Mr. LeMay said the official statement was drafted and is being reviewed.

Regent Neil asked about financing for the ongoing operations of the facility. Vice President True responded that there would be some reduction in square footage on the campus because a portion of the Quadrangle, which currently houses the Academic Advising Center, would be torn down. However, there will be a net increase in square footage. He said University officials would request that the Regents request opening new building funds from the state. Those operating funds would provide for telecommunications, utilities, custodial and maintenance costs of \$6 to \$7 per square foot annually. He noted the process of requesting state support of opening new building costs has, at times, been very successful and, at other times, has not been successful. Recently, the University's requests for state support for core academic buildings have not been successful. At the time this building is to open, University officials and the Board would have to make a judgment in the budgeting process about how to fund the operating costs should the state not provide the necessary funds. University officials will propose to utilize general fund revenues to pay the marginal costs to open the Blank Honors Center this year.

Regent Neil questioned the advisability of building buildings and adding to the University's overhead without a commitment from the state, especially when tuition has increased 20 percent per year during the last two years. He said he was still not satisfied with the parking arrangements for visitors to this building, which have not been finalized. He believes this project should be put on hold until there is a commitment from the state to opening the building so the cost is not shifted to the students.

Vice President True first addressed the parking issue. He said the campus Parking and Transportation Committee is moving rapidly on all of the recommended measures. By August 3, actions will have been taken on many of the recommended actions to ensure those are in place by fall. There will be better parking and way-finding in that area of campus. In terms of the building, he said approximately \$14 million in gifts would support the \$17.6 million project budget. Treasurer's temporary investments would provide \$3 million.

Regent Neil asked about the indication in the meeting materials that private gifts would provide \$4 million. Vice President True responded that the Facilities Corporation bond proceeds would be retired with private gifts. The \$4 million in private gifts to which Regent Neil referred is in addition to the gifts from the Foundation to retire the bonds. Even though part of it is being bridge financed with debt, he said \$14 million is through private gifts.

Vice President True stated that delaying the Pomerantz Career Center project was not without consequence. Certain consequences would begin to occur if a new 400-seat auditorium is not available in 2-1/2 years. Another consequence relates to the need for

classrooms due to increased enrollment. He said he has seen a positive approach by the state to supporting the University's academic buildings in the past.

Regent Neil said the amount of future infrastructure funds was unknown. Vice President True responded that state financing of the University's operating costs was much better in the 1970s and 1980s than in the more recent history. Over a longer period of time, the state has been pretty good about helping to finance the operating costs of academic buildings.

Regent Downer stated that, when he was a University of Iowa student in the late-1950s, he organized a panel discussion on campus about the then-Governor's veto of a capital appropriations bill. From what he learned at that time, he said some of the worst mistakes this state ever made were in not providing proper facilities at the state universities. He described a process whereby bonus payments to WW-II veterans were paid from the general fund rather than from bonds. As a result, capital projects were delayed 10 years or more, which cost the taxpayers far more money than had the projects been financed when the need for the facilities was demonstrated. He said he did not believe that the funding approaches currently being taken by the legislature were sufficient justification for delaying this project.

Regent Becker asked for the link between the Chemistry Building and the Pomerantz Center. Vice President True responded that replacement of poor classrooms on campus and expansion of classroom capacity is critical. University of Iowa officials were disappointed this year in not receiving capital funds for its top capital priority, the renovation of the Chemistry Building. University officials plan to proceed with planning for the Chemistry Building renovation to avoid delaying the project. University officials hope to move ahead with the Chemistry Building project as early as next fall, if state support for capitals is received. He said the Chemistry and Pomerantz Center projects are linked because the Chemistry Building has a 400-seat auditorium and many classrooms. The University's enrollment is growing. Undergraduate academic advising staff are shoe-horned into the Quadrangle. University officials would like to raze a major portion of the Quadrangle and move the advising function into the Pomerantz Center. The Career Counseling Service is shoe-horned into Phillips Hall.

Regent Neil said he did not disagree with the need for the building; however, the Iowa legislature did not fund the Regents' top capital priority this year. Close to 50 percent of the University's operating budget is funded by tuition; therefore, he did not agree with the timing of this building project.

Regent Becker recalled that, in the last year, Board members had begun discussing approaches to requesting support of donors for operating costs of new buildings. She

asked if University officials had an opinion on whether the Foundation could be of assistance with that type of fund raising.

Vice President True responded that it was a matter of donors' wishes. The Foundation offers choices to donors. He anticipated that it would be more difficult to discuss with a donor providing funds for custodial services and utilities versus the vision of constructing a building. However, that was something to which the University could aspire. Any amount of private assistance toward operating costs would be helpful.

Regent Downer asked at what rate construction costs are inflating. Vice President Madden responded that the rate of inflation was approximately three percent.

Regent Becker stated that, considering the discussion, she would move to approve the recommended action and asked that Board members discuss directing the universities to seek funds to help support the operating costs of new buildings.

Regent Arbisser asked Vice President True if he has access to documents of other universities that could assist the Board in its discussion. Vice President True responded that both he and Vice President Madden could provide information for the Board from other universities, particularly private institutions, to provide assistance in how this effort might be approached and structured. He said the University of Iowa Foundation would have similar information.

Regent Arbisser stated that it would be interesting for the Board to review the information, especially in view of the current belt-tightening times.

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 \$11,325,000 University of Iowa Facilities Corporation Revenue Bonds (Pomerantz Center), Series 2003. Regent Downer seconded the motion. Motion carried with Regent Neil voting "no".

**REIMBURSEMENT RESOLUTION, UPGRADE PURIFIED WATER SYSTEM –
HEALTH SCIENCES CAMPUS.**

Vice President True presented the University of Iowa's request for approval of a reimbursement resolution. University officials wish to increase the level of purity of its water system through deionization which would bring the quality to an appropriate level for laboratory use and specialty uses in pharmaceutical production. The University would be reimbursed in 2004 from a bond issuance for the cost of building the system when the costs can be combined with financing for another utility project.

President Newlin asked if deionized water is more pure than regular drinking water. Vice President True responded affirmatively, saying he believes that reverse osmosis is used in the purification process.

MOTION: Regent Newlin moved to recommend that the Board adopt A Resolution declaring an official intent under Treasury Regulation 1.150-2 to issue debt to reimburse the State University of Iowa Utility System for certain original expenditures paid in connection with specified projects. Regent Neil seconded the motion. **MOTION CARRIED UNANIMOUSLY.**

COSTS OF BOND ISSUANCE.

Associate Director Racki stated that the meeting materials contained information on the cost of issuance for three bond sales. She pointed out that the Board Office proposed that the reports on bond issuance costs be provided to the Banking Committee on a quarterly basis.

Regent Arbisser asked for clarification of the listing of Wells Fargo as trustee for the University of Iowa of Utility System Revenue Refunding Bonds.

Associate Director Racki stated that those utility bonds were originally sold as variable rate bonds which required a trustee. The bonds have subsequently been converted to a fixed rate. All of the subsequent bonds have sold on a parity basis with the original bonds and, therefore, also fall under the trust indenture.

Mr. Bittle stated that, when issuing parity bonds, there has to be compliance with the prior bond resolution. He said bond counsel met with the trustee to begin to harmonize all of the supplemental indentures.

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

REPORT ON REFUND SAVINGS.

Associate Director Racki stated that, in response to a request last month, the Board Office had provided specific information on the savings that resulted from two refundings of Academic Building Revenue Bonds which were sold in April. The present value savings of those two bond refundings totaled \$1,521,604.

ACTION: Regent Arbisser stated the Banking Committee received the report on savings from the issuance of refunding bonds, by general consent.

EXTERNAL REVENUE BOND FUND AUDIT REPORTS.

Vice President True stated that a requirement of the bond indenture is for annual bond audits for all of the University's enterprises that have debt. Although there was nothing exceptional in the audit reports, he said the reports provide assurance that the enterprises are being operated properly and in accordance with the bond resolutions.

Regent Downer asked about the policy on obtaining bids from CPA firms to audit the bond issues. Vice President True stated that, three years ago, Deloitte was selected through a competitive process to undertake the bond audits. He said KPMG Peat Marwick was awarded the UIHC audit contract through a competitive bidding process.

Regent Downer asked if solicitation of bids typically takes place on a five-year cycle. Vice President True responded affirmatively.

ACTION: Regent Arbisser stated the Banking Committee, by general consent, received the following University of Iowa revenue bond fund audit reports for the fiscal year ended June 30, 2002: (1) Academic Building, (2) Athletics Facilities, (3) Center for University Advancement, (4) Department of Residence, (5) Iowa Memorial Union, (6) Parking System, (7) Recreation Building, (8) Student Health Facility, (9) Telecommunications Facilities, and (10) Utility System.

EXTERNAL AUDIT REPORT.

Associate Director Rice stated that KPMG Peat Marwick has conducted the audit of the University of Iowa Hospitals and Clinics for a number of years. Its Des Moines office coordinates the audit which is reviewed in its Chicago and New York offices. Because the Hospitals are now required to adopt governmental accounting standards, 2001 had to be restated. She said the audit went well.

ACTION: Regent Arbisser stated the Banking Committee, by general consent, received the external audit report for the University of Iowa Hospitals and Clinics (UIHC) for the years ended June 30, 2002, and 2001.

INTERNAL AUDIT REPORTS.

Director Elliott stated that Board of Regents policy requires the universities to have on-site internal audit staff. Internal auditors conduct reviews of efficiencies and internal controls that may not be reviewed during overall financial and compliance audits. The Iowa State University internal audit office provides audits for the Iowa Braille and Sight Saving School and the University of Iowa internal audit office provides internal audits of the Iowa School for the Deaf. The Board Office tracks the internal audits that have been brought to the Banking Committee. Audits with outstanding comments are listed separately each month. She noted that the internal auditors have all done a great job of finalizing the internal audits including any outstanding issues. When the Banking Committee meets on the individual campuses, the Banking Committee is presented with a comprehensive list of all of that institution's internal audits. The Internal Auditor meets with the Banking Committee and addresses any concerns the members have.

Regent Becker asked about two University of Iowa audits that are outstanding from March and April of 2002. Director Senneff first addressed the audit of the Food and Nutrition Gift Card Program that was being established at the University of Iowa Hospitals and Clinics. She said the gift card would function much like retail store gift cards with an imbedded dollar amount. An audit was conducted of the design and the planned implementation process. The program is now in place with the appropriate controls that were recommended in the preliminary audit, and will be operational in May or June. After a couple of months of operation, the internal audit staff will perform a review. With regard to the Patient Fiscal and Registration Services internal audit at the Hospital, she said it is a very complex and comprehensive area. The major patient registration and billing system was implemented in March 2003. Some of the control

weaknesses that were noted last year are dependent upon the next system. Internal auditors will be looking at that very soon to ensure the controls are in place.

Regent Downer asked if the expected completion dates were anticipated to be met. Director Senneff responded affirmatively and noted that, every month, the Board Office asks the internal auditors if there are any changes. She presented the example of the Patient Fiscal and Registration Services and stated that sometimes more than one follow up is performed.

Regent Neil stated, for the benefit of the new Board members, that three years ago the list of incomplete internal audits was very long and had become quite a concern. He said Director Senneff had done a very good job of bringing the audits up to date.

Regent Forsyth asked about the two areas with the report where it was indicated that the management response was not reported. Director Senneff provided background on the internal audit process. She then stated that, in each instance, the management response was provided but was not included in the internal audit reports submitted to the Banking Committee.

Regent Forsyth stated that “no response provided by management” gave the impression that management did not respond to some critical observations by the internal audit staff. If management has addressed and is responding to those observations, it would be helpful for the Banking Committee members to understand that.

Director Senneff stated that observations do not include management responses. The auditors obtain management responses to control recommendations. She offered to work with the Board Office to ensure the information that is prepared for the Banking Committee is more clear.

Regent Forsyth stated there was a recurring theme in the University of Iowa’s internal audit reports that much work needs to be done on cash management. Director Senneff said that was true. The internal audit plan for the coming year will include the development of a more comprehensive plan for reviewing cash handling across campus. There will be training classes and potential certification.

Regent Forsyth asked if there is a process to share information on best practices across the universities. Director Senneff responded that she is in contact with the Iowa State University internal auditor on a regular basis and with the University of Northern Iowa internal auditor on an irregular basis. She noted that the Big 10 internal auditors meet twice a year and share information. She then stated that Regent Forsyth’s point was well taken and that more needs to be done in our own state.

President Newlin referred to a chart in the meeting materials which outlined internal auditor's recommendations and management responses. He asked if it would be possible to include a column for expected completion to include a month and year. Director Senneff responded affirmatively, and noted that the entire audit report used to be included in the Banking Committee meeting materials. Director Elliott responded that the Board Office provides a summary of the internal audit reports and brings the entire reports to the Banking Committee meetings. She said the Board Office would add the requested column but would need further direction on which completion date was to be presented—target dates for management's completion or when the internal auditor will report back to the Banking Committee.

President Newlin stated that the completion date to which he was referring was when the internal audit would be completely finished.

Director Senneff said the internal auditors try to get management's concurrence that corrective action will be completed within three months. However, there might be some items that will be required to be completed immediately and others that cannot be completed for months. Internal audit staff stay in contact with the audit client but will not present a follow-up report until the longest date out of any follow up.

Banking Committee members discussed the date to be included in the additional column and agreed to Director Elliott's suggestion to add management's target date for implementation under "management's response" and completion of the auditor's report would be in the new third column.

Regent Forsyth referred to earlier statements about implementing training programs and about sharing best practice data among the internal audit staff on all campuses. He suggested the Banking Committee members be provided with information on what is being done to improve the system and what has been learned every year.

Director Elliott responded that the internal audit plans will be presented in July. In those reports is a review of the progress made over the previous plan, the types of internal audits anticipated to be conducted in the next 3 to 4 years, and a prospective for the next fiscal year of the types of internal audits with the associated risk that are planned.

Regent Forsyth stated that the Banking Committee members should be provided with information on the actions that are going to be undertaken to address cash management.

Director Elliott pointed out that the internal auditors always focus on cash management issues.

Director Senneff stated that all departmental and sponsored program audits include a thorough cash management analysis.

President Newlin asked if Iowa State University provides training programs in cash management. Vice President Madden responded affirmatively and added that the internal auditors communicate among themselves. University officials provide the internal auditors with information from the Banking Committee meetings. Iowa State University officials have a goal of appropriate cash management. The “bigger” goal is to not have cash on hand. Automated systems and usage of cards are being implemented.

ACTION: Regent Arbisser stated the Banking Committee, by general consent, (1) Received the following internal audit reports from the University of Iowa: UNIVERSITY OPERATIONS: Audiovisual Center – Departmental Audit; Biological Sciences – Departmental Audit; Biomedical Engineering – Sponsored Programs; Broadcast Services – Departmental Audit; NCAA Coaching Staff Limitations; NCAA Compliance Audit Eligibility; Review of Cash Collection Activities; Sponsored Programs – Departmental Audit; HOSPITAL OPERATIONS: Center for Disabilities and Development; Complimentary Parking Passes – Risk Assessment; Contractual Adjustments. (2) Received the report on the status of the internal audit follow-up reports, including two follow-up reports—one from the University of Iowa—University Operations and one from Iowa State University.

APPOINTMENT OF SUCCESSOR TRUSTEE—UNIVERSITY OF IOWA FACILITIES CORPORATION BONDS (HUMAN BIOLOGY RESEARCH FACILITY) SERIES 1985A.

Vice President True presented the University of Iowa's request to replace Bank One, National Association (f/k/a American National Bank and Trust Company of Chicago) with Wells Fargo Bank Iowa, National Association as successor trustee at a savings of approximately \$3,500 per year. He noted that Wells Fargo performs other trustee services for the University.

MOTION:

Regent Downer moved to recommend that the Board adopt A Resolution Authorizing Proceeding with the Removal of the Existing Trustee, Bank One, National Association (f/k/a American National Bank and Trust Company of Chicago) and the Appointment of Wells Fargo Bank Iowa, National Association to be the Successor Trustee with Respect to that Indenture of Trust (Human Biology Research Facility Project) Series 1985A Dated September 1, 1985, as Amended, to be Effective July 1, 2003. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.

OTHER BUSINESS.

Regent Arbisser read the following which was delivered to the Banking Committee at this meeting: "Dear Iowa Regents: You should have received a petition a couple of months ago from the University Apartments Residents' Action Committee asking for affordable quality student apartments. Accompanying this was a list of almost 70 grievances including, but not limited to, annual rent increases, deteriorating apartments, ADA violations, unsatisfactory transportation, poor technology services. Last April you, the Board of Regents, voted unanimously to raise the rent for at least the 20th consecutive year in Hawkeye Court and Hawkeye Drive. UI Residence Services said that there will be no corresponding improvements to accompany the rent increases. Please acknowledge our petition and work to find the means to improve and ultimately rebuild UI's apartments. In the meantime, please do not increase the rent for sub-standard apartments. Thank you. University Apartments Residents' Action Committee."

Regents Becker and Neil said they did not remember receiving a grievance.

Vice President True stated there are two apartment complexes on the University of Iowa's far-west campus that were built in the 1960s, both of which are past their nominal useful lives. The apartments were originally designed for families but now house mostly international and other single students who want very affordable housing (\$350 a month for a two-bedroom apartment). He said the apartments will eventually have to be razed and something rebuilt in their place. University officials have been aware of the challenge for some time. The difficulty is determining how to raze and rebuild the housing without either a large subsidization or increase in the rental rate to a level where the very people being served can no longer afford the housing. He said it is a real issue that has to be addressed; however, the solution is not obvious because it costs money.

President Newlin asked how many people are housed in the two apartment complexes. Vice President True responded that there are approximately 450 units.

Regent Arbisser asked if University officials have received a formal grievance. Vice President True responded that he had not received a formal grievance.

Regent Becker suggested acknowledging the concerns in the Board meeting and indicating the Board would look into the matter.

Vice President True stated that University officials would be glad to provide the Board with an in-depth report about the circumstances and what University officials are considering in response to the circumstances.

MOTION:

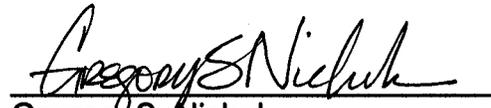
Regent Neil moved to receive the grievances and to ask the University of Iowa to prepare a report on the condition and the outlook of this rental facility, what is possible for the future, and to rectify the situation as soon as dollars are found to do so. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

ADJOURNMENT.

The meeting of the Regents Banking Committee adjourned at 9:42 a.m. on May 22, 2003.



Pamela M. Elliott
Director, Business and Finance



Gregory S. Nichols
Executive Director

bb/f.winword/503bank