

BOARD OF REGENTS
BANKING COMMITTEE

July 16, 2003

The Banking Committee of the Board of Regents met on Wednesday, July 16, 2003, at the University of Northern Iowa, Cedar Falls.

Those present were:

Banking Committee members: Regents Amir Arbisser (chair), Mary Ellen Becker, Robert Downer, David Neil and Owen Newlin (arrived at 4:35 p.m.).

Others in attendance were:

Board of Regents member Sue Nieland (arrived at 4:55 p.m.);

Institutional representatives: David Skorton, Douglas True, Carol Senneff, Terry Johnson, Gregory Geoffroy, Warren Madden, Mark Chidister, Sheryl Rippke, Robert Koob, Tom Schellhardt, Tom McKenna, Bill Calhoun, Carla Kelley, Kristin George, Jeanne Prickett, Jim Heuer, and Luann Woodward;

Barry Fick, Springsted, Inc.;

Ed Bittle and John Bunz, Ahlers law firm;

Chris Berens, Berens-Tate Consulting;

Rex Eno, University of Northern Iowa Foundation;

Board Office: Greg Nichols (arrived at 4:55 p.m.), Pamela Elliott, Joan Racki, Deb Hendrickson, Barb Boose, Andrea Anania, and Barb Briggie.

Regent Arbisser called the meeting to order at 4:30 p.m.

APPROVE MINUTES OF THE JUNE 2003 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 June 19, 2003, Banking Committee meeting, as corrected. Regent Becker seconded the motion.
MOTION CARRIED UNANIMOUSLY.

**RESOLUTION AUTHORIZING AND PROVIDING FOR THE ISSUANCE OF
UNIVERSITY OF IOWA FACILITIES CORPORATION REVENUE BONDS
(POMERANTZ CENTER), SERIES 2003.**

Vice President True stated the bonds would be sold to provide a portion of the funds needed to construct the Pomerantz Center. The facility will permit expansion and improvement in the University's career counseling and placement services, provide new general assignment classrooms and an auditorium, and house the Academic Advising Center.

Mr. Fick stated that the bonds would be sold the following morning. He anticipated receipt of competitive bids. Three firms have signed up to bid. He noted this sale was somewhat unusual in that there will be a single maturity for the bonds. There are very few other bonds currently being sold in Iowa, either double- or single-tax exempt; therefore, he anticipated strong demand for the bonds.

Regent Arbisser noted there was a different sequence of events associated with the bond sale. Mr. Bittle agreed, saying the bonds will be issued by the University of Iowa Facilities Corporation on behalf of the Board of Regents. The Facilities Corporation will issue the debt and lease the facility to the Board for use by the University during the term of the bonds.

MOTION:

Regent Neil moved to recommend that the Board adopt A Resolution Authorizing and Approving the Execution and Delivery of the Ground Lease, the Lease, the Indenture, the Bond Purchase Agreement, the Tax Exemption Certificate and the Continuing Disclosure Certificate, and Authorizing and Providing for the Issuance of University of Iowa Facilities Corporation (Pomerantz Center) \$11,325,000 Revenue Bonds, Series 2003 and Providing for the Payment Thereof. Regent Becker seconded the motion. **MOTION CARRIED UNANIMOUSLY.**

**SALE AND AWARD OF \$4,225,000 ACADEMIC BUILDING REVENUE REFUNDING
BONDS, SERIES UNI 2003A.**

Vice President Schellhardt introduced this agenda item and then deferred comments to Messrs. Fick and Bittle.

Mr. Fick said this sale was to refund outstanding Academic Building Revenue Bonds, and noted that the term of the bonds was not being extended. Approximately \$260,000 in interest rate savings will be realized.

President Newlin asked for the reason for the decrease in the estimated interest rate savings. Mr. Fick responded that Mr. Greenspan's testimony on Monday of that week regarding the economy had resulted in a 25 to 28 basis points increase in interest rates over night.

Mr. Bittle stated that two resolutions were before the Banking Committee for approval.

MOTION: Regent Downer moved to recommend that the Board adopt the following resolution, subject to receipt of acceptable bids: A Resolution providing for the sale and award of \$4,225,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2003A, and approving and authorizing the agreement of such sale and award. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.

MOTION: Regent Neil moved to recommend that the Board adopt the following resolution, subject to receipt of acceptable bids: A Resolution authorizing and providing for the issuance and securing the payment of \$4,225,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2003A, for the purpose of refunding the 2004 through 2012 maturities of the \$6,520,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 1993, dated November 1, 1993, presently outstanding and heretofore issued by the Board to refund bonds issued to defray costs of building construction projects on the campus of the University of Northern Iowa. Regent Downer seconded the motion. MOTION CARRIED UNANIMOUSLY.

Mr. Fick noted that at least one bidder had signed up to bid on these bonds. He said part of the reason for the lesser number of firms for the University of Northern Iowa bond sale as opposed to the sale for the University of Iowa Facilities Corporation is that the issuance size is smaller.

REPORT ON REFUNDING SAVINGS.

Associate Director Racki presented the report which provided savings information on refundings from calendar years 2001 to 2003 which totaled \$7.3 million. She noted the graphs showed the dollar amounts of savings.

Regent Arbisser asked if the information would be distributed to the press. Associate Director Racki responded that the information would be distributed to the press by Communications Specialist Boose.

Regent Arbisser thanked Associate Director Racki for preparing the report.

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

PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$25,000,000 DORMITORY REVENUE BONDS, SERIES SUI 2003.

Vice President True stated that the bond proceeds would finance a number of projects in the University of Iowa's residence system, including the Burge Hall dining project to create a modern dining facility, fire protection, improvements and replacement of the windows on Mayflower.

Mr. Fick said the bonds would be sold in September. The principal and interest payments were structured over 20 years. There would be a level debt service, anticipated at \$1.850 million annually. He said the rating agencies confirmed the AA2 rating of the University of Iowa as part of the review of the sale of Facilities Corporation bonds for the Pomerantz Center.

Mr. Bittle stated that a single resolution was before the Banking Committee for approval.

MOTION: Regent Becker 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 Dormitory Revenue Bonds, Series S.U.I. 2003. Regent Neil seconded the motion. **MOTION CARRIED UNANIMOUSLY.**

COST OF BOND ISSUANCE.

Associate Director Racki stated that the cost of bond issuance had been updated through May 2003. The next report was scheduled for October and would, hopefully, include the cost of bonds to be sold the following day.

President Newlin noted that some of the percentages were quite high. Mr. Fick responded that part of the reason was that smaller issues and new types of issues will have higher costs. Sometimes the rating agencies have additional costs, as well.

President Newlin noted there were also differences between the institutions. Mr. Fick agreed that was also a reason for higher costs. Additional work or updates to bring documentation to more current market standards would also account for higher costs.

President Newlin referred to page 9 of the materials for this item and asked about the difference between 0.65 percent and 0.44 percent in the information on costs of issuance as a percent of bond issuance size. Mr. Fick responded that the 0.65 percent issuance cost was for the \$6.2 million bond sale for the Indoor Multi-Purpose Use Facility at Iowa State University, which required significant additional up-front work.

Regent Arbisser asked if the overall costs have been stable over time. Mr. Bittle responded that the Indoor Multi-Purpose Use Facility was a new facility and parking was a new enterprise, both of which required additional work/cost.

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

RENEWAL OF BOND-ASSOCIATED CONTRACTS.

Director Elliott stated that the Code of Iowa requires the Board of Regents to competitively hire bond-associated professionals at least every five years. In 2001, the Board issued RFPs and hired these professionals: Ahlers—bond counsel; Springsted—financial advisor; and Berens-Tate—arbitrage rebate services. The contracts, by administrative rule, have to be renewed on an annual basis.

Mr. Bittle introduced John Bunz of the Ahlers law firm. He said Mr. Bunz will be working on some of the issues coming up in the next couple of months.

Director Elliott said the bond-associated contracts before the Banking Committee all begin on September 1 and end on August 31. Since there was no August Board meeting, the contracts were presented for renewal at this meeting.

Director Elliott introduced Chris Berens from Berens-Tate Consulting Group, which provides the Board's arbitrage rebate services, for his first presentation to the Banking Committee.

Mr. Berens provided the Banking Committee members with an overview (who, what, where, when, why) of the basics of rebate tax law. He said arbitrage is the "excess" earnings from investing bond proceeds at a higher yield than the yield being paid on the bonds.

Regent Neil asked about the timetable related to arbitrage rebate. Mr. Berens responded that payments to the Internal Revenue Service must be made every five years.

Mr. Bittle noted that Executive Director Nichols signs a tax-exemption certificate for every bond issuance. He said Mr. Berens has been very good at making suggestions for changes to manage the rebates.

Mr. Berens next discussed the process of managing the bonds to reduce the amount of rebate to be paid.

MOTION: Regent Downer moved to recommend that the Board approve the annual renewal of the contracts with: Ahlers Law Firm as bond counsel to the Board of Regents; Springsted, Inc. as financial advisor to the Board of Regents; and, Berens-Tate Consulting Group for arbitrage rebate services. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.

FY 2004 INTERNAL AUDIT PLANS.

Director Elliott stated that once a year the internal audit plans are brought to the Banking Committee for review. She noted that each of the internal auditors was prepared to address the individual plans. The internal audit plans review past accomplishments and identify the next fiscal year's internal audit focus. The three internal audit staffs made progress toward completing the internal audit plans for FY 2003. The FY 2004 internal audit plans are based on known circumstances and areas needing routine audit coverage. The plans also include non-audit activities such

as leave and professional development. Portions of the audit plans are unscheduled to allow the internal auditors flexibility to respond to events that transpire throughout the year.

Director Senneff provided a summary of the FY 2003 internal audits at the University of Iowa, and noted that improvement is taking place in the ability of internal auditors to share their lessons learned. She noted that one of the areas about which she has talked with the Banking Committee members is cash handling. There are over 150 areas where cash is being collected at the University. Recently, Controller Johnson and Director Senneff hosted a large group which including representatives of the controller's offices, treasurer's offices, and internal audit offices from all three universities, as well as from the business office and accounting at the University of Iowa Hospitals and Clinics. She said the group met for an entire day to discuss cash handling. A team was formed to carry out some action items, which are taking place. She hoped that, in the future, she would be able to report to the Banking Committee that great progress has been made in this area.

Director Senneff said the internal audit plan is the result of a subjective risk assessment which identifies areas where there is a high possibility of financial loss. She itemized the areas identified through risk assessment for auditing in the coming year. Those areas include sponsored programs, automated workflow, select agents, UIHC facility safety and security and the newly-implemented IDX system in health care (University and Hospital).

With regard to internal audit staff, Director Senneff stated there were nine people currently in the department. One person, who had very strong skills, gave her resignation notice two weeks ago. Director Senneff presented the qualifications of the remaining internal audit staff, which included four CPAs and two MBAs. There was one vacancy in the Hospital and now there would be a second position vacant. She said staff continue to receive training in a number of areas.

Director Senneff said she recently led a peer review team which audited the University of Minnesota Internal Audit Department.

President Skorton commented, for the record, about the effective process of internal auditing at the University of Iowa. Although the audit activities encompass financial auditing, the efforts go far beyond that. Employees are introduced to the element of control. He said Director Senneff provided a very important function that is done well.

Director Rippke presented the internal audit plan for Iowa State University. She stated that the risk assessment process was much the same as at the University of Iowa. The internal audit department performed a self-study during this past year. Next fall, there

will be a peer visit to look at how Iowa State University's internal audit operations are conducted. The peer review team will be asked to look at governance. She said interviews are also taking place with a number of University officials regarding where value can be added. She next addressed information technology audits which are conducted to ensure integrity of the systems. Internal audits are also conducted on sponsored programs.

Regent Arbisser asked for the educational background of Director Rippke's staff. Director Rippke responded that she is a certified internal auditor. Her staff include one CPA and one CIA, and one with a Bachelor's degree in Finance who will be working on her CIA.

Regent Becker said it was her recollection that last year Director Rippke indicated she would be adding staff. President Geoffroy responded that, one to two years ago when the budget situation was so bad, a position was eliminated in the internal audit office. His long-term hope was that the position can be restored.

Regent Becker asked about the potential risk in eliminating an internal audit position. President Geoffroy responded that it ultimately impacts the number of audits that can be conducted every year.

Regent Becker asked that, during the audit of the Iowa State University audit office, the peer reviewers be asked about the potential risk in eliminating an internal audit position. She would also like to have a comparison of the number of internal audit staff at similar-sized universities.

President Geoffroy stated it was important to identify areas that are the most vulnerable, and focus the auditing in those areas.

Vice President Madden stated that Iowa State University has greater internal audit capability than may be reflected by the number of internal audit staff. He said others also audit the University, including federal auditors and state auditors. There is a resident state auditor on campus.

Operations Auditor McKenna introduced the internal audit staff of the University of Northern Iowa. Carla Kelly, who has her CPA, is the internal auditor. Kristin George is a pre-CPA student who started working in the office last spring. Mr. McKenna is also a CPA. He stated that specific information about the University's audit plan was in the meeting materials, and noted that the information was presented well by the Board Office. He discussed the risk analysis that was performed to develop the internal audit plan for the coming year. Areas to be reviewed include the Gallagher-Bluedorn

Performing Arts Center and UNI-Dome concessions. He said those audits will provide an opportunity for internal audit to determine how the operations are performing.

Regent Becker asked about the capacity and numbers of staff. Operations Auditor McKenna responded that the internal auditors look at risk in order to avoid difficulties. He stated that, no matter how many staff he has, the internal audit office will not look at every function of the entire University. Between the controller's office and the internal audit office there is a presence on campus.

Regent Becker said she was very pleased for the group support regarding cash handling (as discussed by Director Senneff), and that she was pleased the universities are helping each other. Director Senneff said there would be future group meetings which focus on other areas that might benefit from a group effort.

Regent Neil asked, in light of the fiduciary responsibility of the Banking Committee, if any of the internal auditors had experienced undue influences or roadblocks from university administrators. All three internal auditors responded that they had experienced no such difficulties. Operations Auditor McKenna added that he has experienced no difficulty with the president's office. In fact, having the university president as his boss gives him the extra authority that is sometimes necessary to do his job.

ACTION: Regent Arbisser stated the Banking Committee, by general consent, (1) received the progress reports for the universities' FY 2003 audit plans and (2) received the universities' internal audit plans for FY 2004.

INTERNAL AUDIT REPORTS.

Director Elliott stated that seven new audit reports were presented this month: three from the University of Iowa – University Operations, two from the University of Iowa – Hospital Operations, and two from Iowa State University. All require follow-up reports. The status of internal audit follow-up identified 18 internal audit reports, 17 of which require follow-up. Two follow-up reports were presented this month: University of Iowa Cash Collection Activities, which is closed, and University of Northern Iowa FY 2002 Cash on Hand, which remains open.

Director Senneff pointed out that the audit of surplus computers found that the computers had been technologically cleaned to prevent the retrieval of confidential information. The software at the University of Iowa Hospitals and Clinics and the University of Iowa Health Care had been changed which facilitated this cleaning.

Director Rippke offered to answer questions about the two internal audit reports of Iowa State University.

ACTION: Regent Arbisser stated the Banking Committee, by general consent, (1) Received the following internal audit reports: UNIVERSITY OF IOWA – UNIVERSITY OPERATIONS: Department of Orthopaedic Surgery – Cash Handling Audit, Department of Orthopaedic Surgery – Sponsored Program Administration, Student Legal Services Departmental Audit; UNIVERSITY OF IOWA – HOSPITAL OPERATIONS: College of Medicine Review of Surplus Computer Disposal Practices, Homerus Robot; IOWA STATE UNIVERSITY: NCAA Compliance – Representatives of Athletics Interest, Student Financial Aid; and (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 and one from the University of Northern Iowa.

Director Elliott noted that various dates had been added to the table of internal audit follow-up, as requested by the Banking Committee.

Regent Neil stated that the status of internal audit follow-up reports had come a long way in a short time, especially at the University of Iowa. He commended the internal auditors and their staffs.

BUSINESS AND FINANCING PLANS – UNIVERSITY OF NORTHERN IOWA EVENT COMPLEX.

Executive Director Nichols stated that the Banking Committee was asked to provide advice and counsel to the Board and the Board Office on the business and financing plans for the Arena portion of a proposed event complex on the University of Northern Iowa campus. He said there are a number of parts to the proposed event complex, one of which is known as the Human Performance Center. The Human Performance Center business plan was not before the Banking Committee for review at this meeting.

In October 2002, University of Northern Iowa officials presented the program statement for the event complex project to the Board. The Board asked at that time for presentation of business and finance plans for the Arena. Executive Director Nichols stated that, subsequent to October 2002, a number of intervening events have occurred, including recent changes in the Board's criteria for new capital construction and the status of external financing and on-going fund raising.

Executive Director Nichols presented the Board Office-suggested discussion items contained within the meeting materials, and noted that the Banking Committee may want to recommend that some of the items be required as conditions for the Arena project. Those items were as follows:

1. Student Financial Support – Student Fees
 - a. No increase will be allowed in the current Fieldhouse (UNI-Dome) student (building) fee, which is \$90 per academic year, to support construction or operation of the Arena.
 - b. The student activities fee(s) for athletics can be used as a pledge for the bonds proposed to be issued for the Arena but cannot be used to pay any of the debt service or operational costs of the Event Complex.
2. Academics - General University Support
 - a. University general fund support for the operations of the Event Complex must be held to the FY 2004 budgeted level (\$730,830).
3. Private Funds – UNI Foundation
 - a. Foundation must guarantee future gifts as detailed on the list of pledges.

- b. Foundation must be responsible for operations and maintenance costs of the Arena, including providing funding to the University in lieu of University general fund support for the Event Complex Enterprise.
 - c. Foundation to be responsible for construction of parking to replace the parking lost with construction of the Arena.
 - d. Possibility of the Foundation being responsible for other expenditures to be explored with the Regents bond counsel and the UNI Foundation.
4. Planning Issues
- a. The Arena project budget of \$19.5 million needs to be in-hand or pledged, pledges in arrears need to be paid, and all pledges due before the issuance of bonds are to be current (paid) before Board approval of the financing plan.
 - b. Agreement with City of Cedar Falls needs to be finalized with appropriate approvals, including those on behalf of the Board of Regents, prior to approval of the financing plan.

President Koob said he would provide a brief history of the project. Vice President Schellhardt would present information on the general funding. Rex Eno, President of the University of Northern Iowa Foundation, would present the Foundation's role in this endeavor.

President Koob stated that, in April 2000, the UNI Foundation approved a \$75 million capital campaign, an important element of which was a sports arena. In August 2000, a naming gift for the arena was announced. In November 2001, University officials presented the Board of Regents with a request for permission to proceed, which was approved. In May 2002, the Board was presented with, and approved, an architectural agreement for the design of the project. In October 2002, the Board of Regents approved a program statement for the project. In November 2002, the Board approved the purchase of property south of the UNI-Dome. He said a schematic design for the building was presented to the Board in April 2003.

At the time of the schematic design presentation in April, there was skepticism about the status of the funding plan. President Koob said he assumed, from the strong support of the Board throughout the process, that the project itself was not in question. If that was a fair assumption, he said the question was whether or not the architectural planning has to be delayed for the financial planning. He requested guidance

concerning the schematic design approval so the architects can begin working on the final blueprint. It was unclear to University officials what should be the next step.

President Koob requested clarification of what is expected under the new Board policies. He said University officials need to know if the expectations have changed from those implied throughout the process.

President Koob asked: 1) whether the project itself was in any jeopardy, 2) that the schematic design be separated from the financial plan with the Board's full knowledge that it retains control at every step of the way, and 3) the conditions of a successful financing plan be detailed.

Vice President Schellhardt presented the major features and benefits of the Arena, the funding and financing plans, and definitions of the terms in the pro forma statement. Vice President Schellhardt stated that the Arena project is budgeted for \$19.5 million. The facility will seat approximately 6,100 individuals for athletic events, and as many as 7,000 individuals for concerts and convocations. The facility will be operated as part of a self-supporting enterprise. The management team that currently operates the UNI-Dome will also operate the Arena. The Arena will be connected to the UNI-Dome. He said the facility will help to transform the west campus into an environment that fosters community collaboration, and enhances athletics, health and education outreach.

Vice President Schellhardt said the Performing Arts Center seats 1,600, the UNI-Dome seats 10 times that amount, and the Arena will seat from 6,000 to 7,000. These three facilities provide venues for entertainment and other events. The Arena could also be utilized for graduation, convocation, conferences, career and academic fairs. Public high schools could also utilize the facility, as is currently done with the UNI-Dome.

Use of the Arena would free up approximately 90 days for use of the UNI-Dome – currently utilized for basketball – based upon a study by the Institute for Decision Making. The additional 90 days of availability of the UNI-Dome would generate another 80 events in the next three to five years. Vice President Schellhardt said University officials were aware of several events that could be held on campus as soon as the Arena is built. Those additional events would generate approximately 370,000 new visitors and \$23 million in “new” money annually. He stated that the Arena would enhance student recruitment including the finest Iowa student athletes.

Vice President Schellhardt next addressed fund sources. He said the Foundation has raised \$14 million from over 800 donors, toward a goal of \$18 million. There is excitement for the project not only in the Cedar Valley but throughout and even beyond Iowa. The more cash on hand, the lower the debt service costs, all other items being equal. The annual debt service cost is currently estimated at \$975,000. He stated that,

if the surplus fund or institutional funds are not used as one of the fund sources and additional funds had to be borrowed, the debt service cost would be in excess of \$1 million annually.

A few days previous to this meeting, the Cedar Falls City Council voted six-to-one to loan the University \$500,000. Vice President Schellhardt reported that \$300,000 of the \$500,000 is a no-interest loan, payable over 20 years at \$15,000 per year. The remaining \$200,000 would be in the form of a forgivable loan if the University of Northern Iowa meets the various obligations outlined by the city. He said that, if the University took 20 years to pay off the \$300,000 no-interest loan, the savings to the University would be \$150,000.

Vice President Schellhardt referred to the proposed surcharge. He said University officials believe that a nominal amount can be charged for certain events, which would generate \$1 million in total funding for the Arena.

Regent Becker asked who would pay the surcharge. Vice President Schellhardt responded that those individuals attending trade shows and entertainment events would pay the surcharge. There would not be a surcharge on tickets for University athletics or for some other events.

Regent Neil asked for the anticipated duration of the surcharge. Vice President Schellhardt responded that University officials anticipated the surcharge would be in place for 15 years, at which time a decision would be made about whether it would be continued.

Vice President Schellhardt reviewed the funding schedule for the Arena project. He said there is currently \$6 million on hand in the form of pledges and cash. The City of Cedar Falls will provide \$500,000. He noted that the agreement with the city has to be approved by the Board of Regents as well as by the Attorney General's Office. He said institutional funds will provide \$1 million. He noted that approximately \$700,000 to date has been paid on the design and architectural fees. Deducting those revenues from the \$19.5 million project budget leaves a construction fund requirement of \$11.5 million. University officials estimated that at an interest rate of 4.5 percent with \$12.7 million borrowed would result in an annual debt service of \$975,000.

Vice President Schellhardt next reviewed the revenue sources. He pointed out that University officials believe the event revenue estimates were conservative. With regard to the additional 80 to 85 event days freed-up in the UNI-Dome, University officials estimate that revenues would increase by 6 percent until 2010, and by 4 percent after 2010. University annual support of the Fieldhouse (UNI-Dome) is \$716,000. The budgeted amount for FY 2004 was \$730,830. Those revenues represent rent of the

UNI-Dome for physical education classes, lectures and other activities that benefit students, as well as for athletic events. One of the items referenced earlier by Executive Director Nichols for discussion was that University support should not be increased any higher than \$730,000 annually. University officials believe that this number will probably have to increase each year by \$15,000 to \$16,000 for staff salaries.

Vice President Schellhardt stated the item entitled, "public rental income" in the meeting information was fees for the use of facilities. The increase in the available dates will generate additional income. He said the "Fieldhouse student fee", which would not increase, represented the dedicated fee to support the UNI-Dome roof repairs and other maintenance. UNI Foundation pledge revenue will pay the debt service on bonds to be issued for the Arena. He noted that funding to operate the new space is included in the budget. The estimate for new space funding for the facility was \$285,000 annually. He next addressed "surplus funds", which represented the cumulative excess income over expenses less charges, repairs and maintenance on the UNI-Dome roof. Currently, the surplus is \$3.2 million.

Vice President Schellhardt introduced the Chairman of the UNI Foundation Board of Trustees, Rex Eno, and noted that Mr. Eno is also co-chair of the \$100 million "Students First" scholarship campaign. At one time, the campaign goal was \$75 million; however, due to the campaign's success, that goal was increased. He said Mr. Eno was also the retired Chairman of Life Investors Insurance Company.

Mr. Eno stated that the "Students First" campaign had been an exciting and reassuring time for the University, the Foundation Board, students and supporters. He said the original goal of \$75 million was established after consultants advised that \$50 million would be a lofty goal. By October 2002, \$70 million had been raised, during the worst economic downturn since WW II. The goal was raised to \$100 million and \$80 million has already been raised. The campaign proceeds go directly to scholarships and athletic and faculty programs. He said the Arena was a core capital project and the most visible aspect of the fund-raising campaign.

Mr. Eno stated that Foundation officials were excited about the plan for the Arena. The lowest amount possible would be financed. This amount is currently estimated at \$12.6 million. He said the financing may be less than projected because of the lowest interest rates in 40 years. Commercial construction activities are down; buildings can be built at least as economically as they could be built at any time in the last decade.

Mr. Eno discussed the unique partnership that has been formed with the community. First was the \$500,000 financial package extended to the University by the City of Cedar Falls. He said the Arena would create a \$20 million annual economic benefit for

the Cedar Valley. The Arena will be self-supporting, and will expand and enrich the educational opportunities for students.

Mr. Eno stated that members of the University of Northern Iowa Foundation questioned whether the Board of Regents' perspective had changed. He said the capital campaign was 85 to 90 percent complete. Fund raising for the Arena was done under a set of assumptions and procedures that were already in place. He said that to change the assumptions and procedures appreciably now, and to delay the project a long time would strike at the credibility of the endeavor.

Mr. Eno said there has never been a more critical time to raise money to help students receive an education. In the last 20 years, Iowa has steadily moved to privatize public education. The latest statistics that he had read were that 43 percent of the cost of attending a Regent university was borne by students. In 1980-81, that figure was 21 percent. Therefore, there is an even greater need for the Foundation to seek private funds. Foundation members were excited that they had been able to raise \$80 million and were looking forward to completing the \$100 million goal in the next couple of years.

Regent Downer expressed uneasiness about the Institute for Decision Making, which is a part of the University of Northern Iowa, validating the numbers with respect to the facility's usage and income stream. He asked if consideration had been given to seeking an independent evaluation. If so, what steps have been taken in that regard and how much time would be involved in getting such a report?

Vice President Schellhardt responded that University officials could seek an independent evaluation. He noted that the study performed by the Institute for Decision Making was not done on the University's behalf.

Regent Downer stated that he has participated in activities of the Institute for Decision Making, and that he meant no disrespect whatsoever. He said he was concerned about the close relationship of the Institute to the University in validating a University project.

Vice President Schellhardt stated that University officials would look into other firms that might be able to validate the data.

President Newlin referred to the \$14.379 million raised in pledges, and asked if any of that amount was in arrears. Vice President for University Advancement William Calhoun responded that, of the \$1.7 million in arrears, confirmation had been received that \$1.2 million would be paid once construction documents are signed. He stated the pledge collection rate of the University Foundation has been very strong.

Regent Becker asked if \$2,620,000 still needed to be raised. Vice President Calhoun responded affirmatively. He said Foundation officials feel very strongly that the potential is there to raise at least that amount if not more.

President Koob said it was not expected that the current status of fund raising would be the status at the time University officials request the bond sale. University officials have always assumed that additional funds would have to be raised before the Board would approve a bond sale.

Regent Becker asked for the timetable for raising the additional funds. President Koob responded that they anticipate those funds would be raised by the first of September to the first of October.

Regent Neil asked what resources of the Foundation could be used to underwrite a potential \$5 million to \$6 million shortfall. Vice President Calhoun responded that the Foundation does not have unrestricted resources of that amount. He said the Foundation continues to generate unrestricted resources every year.

Regent Neil stated that he would like for the Arena to be built in this community. He has seen the impact of the Gallagher-Bluedorn Center for the local community as well as the entire state. However, the Iowa Legislature has cut education funding for the last four years. The Board's number one priority is salaries. He believes the University of Northern Iowa could meet its educational mission without this building project. He was concerned about the risk of additional general University funds or student funds being needed to finance this project. For the University to proceed, he said the pledges should be in hand as well as a commitment from the Foundation to underwrite the project. The political climate also has to change with regard to meeting the Board's funding requests before the project can proceed. He clarified that his remarks applied to the University of Iowa and Iowa State University, as well. The number one emphasis should be securing money to keep the top-notch professors to maintain educational quality.

President Koob said he agreed with the goal that neither students nor the general fund should suffer an additional burden as a result of the construction of the facility. He stated that this project should provide a benefit, not a liability, to the University. He said there was significant downside liability in not pursuing the project in the loss of credibility of the Foundation and its ability to raise scholarship funds.

Regent Neil stated that the landscape has changed. He conjectured that the Foundation has not been immune to what has been happening.

Mr. Eno asked for clarification as to whether Regent Neil would support the project if the pledges were in hand. Regent Neil said there should also be no risk to the students or to the general fund.

Mr. Eno asked for clarification of Regent Neil's earlier statements about the Foundation underwriting a potential \$5 million to \$6 million shortfall. Regent Neil said it was his understanding that the Foundation does not have the money to underwrite it.

Mr. Eno asked for Regent Neil's definition of "underwrite". Regent Neil said there has to be a reasonable expectation that the pledges are going to come in and that there would be no risk to the students or the general fund.

Mr. Eno asked if Regent Neil was asking the Foundation to guarantee that the pledges would be received. Regent Neil said there was \$1 million from UNI-Dome funds for which it was unknown whether the funds could be used for any other reason. Therefore, he said the Foundation is \$6.5 million short.

Mr. Eno asked if Regent Neil was saying the entire \$19 million would have to be raised. Regent Neil responded affirmatively.

Regent Arbisser said he did not sense that the Board was opposed to the project. He referred to the Board's fiduciary responsibility to students, and said he hoped that Mr. Eno could look at both sides of the issue. He suggested that the UNI Foundation could set the example for how to fund a building construction that does not put at risk the funds of the university or the students. He referred to the loud cries concerning the large tuition increases of the last couple of years which were necessitated by the reduction in legislative funding. He acknowledged that the state does provide the Regent enterprise with annual funding of approximately \$600 million; however, state funding has not kept up with the funding needs. The state has also made guarantees for salary increases and then not funded those salary increases. The funds to pay the salary increases have had to come out of the "hides" of students and their families.

Regent Arbisser stated there was not opposition to the project, conceptually. Rather, the goal was to have a complete funding package, and not to piece together the funding from a variety of yet-to-be-received sources.

Mr. Eno asked if Regent Arbisser was saying this rationale would extend to other projects in the future and to the other two Regent universities. Regent Arbisser said that was not an unreasonable assumption in the current climate.

Regent Becker agreed with Regent Arbisser's assessment of the Board's position. She said all of the institutions would be asked for assurances of financing streams for construction projects.

Regent Downer stated he was reasonably confident that the initial funding for the project would be raised. He understood the importance of the facility for the Cedar Valley and the importance of maintaining the Foundation's credibility with donors. He said he was concerned about the cost of operating the facility with no impact on student fees once it is constructed. Strong support for the operating projections was critical, as evidenced by an objective look by knowledgeable persons.

President Koob said the goal would be to provide enough analysis to diminish the risk to the Board of Regents or to the Foundation Board. One or the other Board will have to take the risk. He stated there was no cost-benefit analysis that would absolutely guarantee there would be no risk. Perhaps University officials need to put their energy into discussing the risk-success ratio with the Foundation Board. Doing so would put a certain amount of control in the hands of the Foundation Board, as well as the opportunity to benefit from the success of the business plan. He asked for the intent in pursuing a more objective review of the business and finance plan. Would the Banking Committee be satisfied with the independent review if it confirms the current review, or would it still not be unacceptable? If that was the scenario, he would prefer to put his time and energy into working with the Foundation Board.

Regent Downer said he would be willing to take some risk regarding the operational costs on this project if he was confident that a thorough, well-documented study had been conducted. He acknowledged that there was not an absolute guarantee. Any number of circumstances could cause an increase in operating costs, for example.

Regent Becker expressed her agreement with Regent Downer's position. She said she would be willing for the Board of Regents to take the risk if the fund-raising goal had been achieved and there was an appropriate independent review of the business and financing plan.

Vice President Schellhardt presented the following UNI-Dome attendance data for the most-recent one-year period. There were 100,000 spectators at athletic events within the UNI-Dome, and 200,000 visitors for trade shows, concerts, etc. He pointed out that those attendance figures were during a year when the UNI-Dome was not operational for three months in the summer due to work on the roof, and for three months in the winter while used for basketball events. Therefore, the attendance figures reflect a year in which the UNI-Dome was not open for operations for five to six months.

President Koob offered the following proposal: The University would engage a credible third-party firm that is agreeable to the University, the Board and Board staff to carry out a review of the business and finance plans. Fund raising would continue. He requested there be an understanding that, if both of those conditions are met, there would be a high probability that the project could move forward.

Regents Becker and Downer said President Koob's proposal was acceptable to them.

President Newlin asked for the projected annual operating cost of only the Arena. Vice President Schellhardt responded that the operating expense would be a total of salaries and wages, operating supplies and expense, insurance, utilities, administrative overhead, plus debt service. For 2006, the projection of the Arena operating costs was \$500,000.

Regent Arbisser asked for comments from the Board's bond experts.

Mr. Fick stated that a feasibility study would be significantly beneficial to a bond issue by ensuring the revenue sources have a relatively high probability of success.

Regent Neil asked if the feasibility studies with which Mr. Fick was familiar included a review of the likelihood of the pledges being fulfilled. Mr. Fick responded affirmatively. He said it was not typical to have feasibility reports on capital campaigns but, rather, as a component of a particular project.

Mr. Bittle stated that all of the revenues of the UNI-Dome are first pledged to pay the debt service. If this project were added to the enterprise, all of the revenues of the enterprise, including any surcharges, would be first pledged to debt service. He said city officials would have to understand that the city would not receive payment until after the debt service and the reserve fund are funded every year. There also is a covenant in the bond resolution that there will be coverage of 120 percent, which means there must be net revenue of \$1.20, including the surplus funds, for every debt service dollar each year. He said the surplus fund can be used for the coverage requirement. If sufficient revenues are not received to meet the coverage requirement, the Board would have an obligation to raise fees or make sure that the coverage requirement is met. He stated that the Banking Committee members had identified the issues that should be reviewed. Even if the Banking Committee had not raised the issue of a feasibility study, the Board's bond advisors would probably have requested a feasibility study to assure potential bidders this was a responsible debt financing plan.

President Newlin stated that the Board's bond advisors should be consulted about who is chosen to perform the feasibility study.

President Newlin referred to the University's fund sources for the project, as presented in the meeting materials. He asked if the UNI Foundation gifts of \$14.3 million were considered secure except for \$500,000. Vice President Calhoun responded affirmatively.

President Newlin asked if the additional funds to be raised totaled \$6.2 million. Vice President Calhoun responded affirmatively, noting that the remaining \$500,000 to which President Newlin referred was also secure. Confirmation from the donor had yet to be received.

President Newlin asked for identification of the funds which the Foundation knew would be forthcoming. Vice President Calhoun responded that the Foundation was sure about the \$1.2 million.

President Newlin said there was, theoretically, \$3.1 million yet to be raised.

President Koob stated that the intent was to use the UNI-Dome "surplus" funds as a bridge fund, not as a contribution.

Regent Neil referred to the \$500,000 annual operating costs, and said the cost of replacing the bridge funds had to be included. President Koob said that was built into the pro forma. If that was a concern, it would be put aside by not using "bridge funds".

Regent Arbisser expressed appreciation to the Foundation and to the donors for their generosity in this difficult economic time. He also thanked Mr. Eno for his tenacity. President Newlin expressed appreciation to the donors, stating that private giving was extremely important in the current economic climate.

Regent Arbisser then asked Executive Director Nichols to summarize the discussion.

Executive Director Nichols stated that the Banking Committee has requested: 1) to receive an update from the University on a) the status of the \$500,000 pledges and b) to receive an update on the progress toward the \$2.6 million additional funds to be raised. The ideal is that both of those would flow into funds raised by that time. 2) The Board Office, legal counsel and others will take the necessary steps to expeditiously review the City of Cedar Falls agreement in conjunction with any issues about the bonds and any other terms and conditions. 3) Legal issues to be reviewed include a bond component on allowable uses of surplus funds and other enterprise revenues, particularly surcharges, in light of obligations related to the UNI-Dome.

President Newlin added that may mean raising another \$2 million.

President Koob stated that the surcharge would be part of the business plan. He said the surplus funds need to be increased before the project can begin.

President Newlin asked President Koob if the surplus fund would fall under the UNI-Dome purview. President Koob responded that, if the surplus funds cannot be used for construction, funds to replace the surplus funds would need to be raised before construction can begin. The surplus fund is built into the number of uses of the event center.

Executive Director Nichols continued to summarize the discussion. He stated that a third-party validation of the projections in the business plan needed to be completed.

With regard to the Board Office-suggested discussion items, Executive Director Nichols stated there appeared to be no interest in pursuing additional student fees. The student activities fee(s) for athletics can be used as a pledge for the bonds proposed to be issued for the Arena but cannot be used to pay any of the debt service or operational costs of the Event Complex.

With regard to the discussion item on University general fund support for operations of the Event Complex being held to the FY 2004 budgeted level (\$730,830), Executive Director Nichols said University officials had indicated that an inflationary factor would have to be factored in, regardless of whether the Arena comes on line. The Board Office and University officials would discuss the matter as part of the business plan review.

Executive Director Nichols said he was unsure of the Banking Committee's position on the requirements that the Foundation guarantee future gifts and that revenues for the Arena project budget of \$19.5 million be in-hand or pledged before Board approval of the financing plan. Those two issues would be addressed in the next 60 days.

Regent Neil said it was his understanding that student fees are currently pledged on the UNI-Dome. Director Elliott said there is a building fee for the Fieldhouse which is pledged for the roof replacement of the UNI-Dome. There is also a mandatory student fee that includes an amount set aside for athletics.

Regent Neil asked to be provided with a break down of what is being charged and what is pledged. Director Elliott agreed to provide the requested information. She noted that her understanding was that the athletic fees that are part of the student activity fees are what was referred to in this discussion. She said those fees were not pledged for bonds.

President Newlin asked if the \$90 student fee identified in the meeting materials was only for the UNI-Dome. Director Elliott responded affirmatively, stating that was the building fee for the UNI-Dome to which she had referred earlier.

Executive Director Nichols continued to summarize the discussion. He reminded Committee members of their discussion a year ago regarding the practice facility at Iowa State University. He said the practice facility discussion was parallel with the discussion of the Arena project at the University of Northern Iowa. There were existing unpledged student fees involved in the project at Iowa State University, as well.

Executive Director Nichols said there appeared to be no interest in requesting that the Foundation be responsible for replacing the parking that would be lost with construction of the Arena.

President Koob stated that parking is a separate and reasonably lucrative self-liquidating enterprise at the University.

Executive Director Nichols said he was unsure of the wishes of the Banking Committee with regard to the discussion item that the Foundation must be responsible for operations and maintenance costs of the Arena, including providing funding to the University in lieu of University general fund support for the Event Complex Enterprise. That question would be in abeyance until after the business plan review.

President Koob said it was his understanding that the business plan would address whether the difference identified by President Newlin could reasonably be expected to be paid.

Regent Downer suggested the Banking Committee await responses to the items identified by Executive Director Nichols before proceeding further.

Executive Director Nichols stated that, included within the University of Northern Iowa capital register for consideration this month, was an issue of the new criteria as it relates to this project. He noted this was another area where feedback could be given from the Board to the University prior to a request for formal action.

President Koob expressed a need to clarify the nature of the architectural plans. He questioned whether the project could proceed to a more detailed design or whether there was a feeling on the part of the Board that the fundamental design was flawed.

Regent Becker asked about costs involved in moving ahead with the architectural plans.

Regent Neil pointed out that this matter would be back before the Banking Committee in 60 days.

Vice President Schellhardt stated that, if the architectural plans are delayed another 60 days, ground would not be broken until spring. He said he would like to report back on the potential cost of proceeding with the plans.

President Newlin asked if Vice President Schellhardt could report on the cost the following morning. Vice President Schellhardt said he would be glad to do so.

Regent Downer expressed his belief that proceeding with the architectural plans was a prudent step to take, assuming there were unrestricted funds available to pay for it. He said this was an opportunity for a very cost-effective construction project and it might not be prudent to wait 60 days to proceed with architectural plans.

President Koob stated there was cash on hand to pay for the activity.

Regent Neil asked for the contingency plan in case the project comes in at \$1 million over budget. President Koob responded that all construction projects have delete and add alternates.

Regent Neil asked that his comments not be perceived as being critical of the project. The impetus of his remarks was that students not suffer additional financial burdens.

ADJOURNMENT.

The meeting of the Regents Banking Committee adjourned at 6:58 p.m. on July 16, 2003.



Pamela M. Elliott
Director, Business and Finance



Gregory S. Nichols
Executive Director