MEMORANDUM

To Banking Committee

From: Board Office

Subject: Resolutions for the Sale and Award of $6,695,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2004

Date: April 12, 2004

Recommended Action:

Recommend that the Board adopt the following resolution (see G.D. 3), subject to receipt of acceptable bids:

1. A Resolution providing for the sale and award of $6,695,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2004, and approving and authorizing the agreement of such sale and award.

2. A Resolution authorizing and providing for the issuance and securing the payment of $6,695,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2004, for the purpose of refunding the 2006 through 2015 maturities of the $8,935,000 Academic Building Revenue Bonds, Series S.U.I. 1993, dated September 1, 1993; and for the purpose of refunding the 2006 through 2015 maturities of the $1,345,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 1994, dated July 1, 1994.

Executive Summary:

The Banking Committee is requested to recommend that the Board adopt two resolutions related to the sale, award and issuance of $6,695,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2004.

At its March 2004 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to refund the 2006 – 2015 maturities of the Board's Academic Building Revenue Bonds, Series S.U.I. 1993 and Series S.U.I. 1994.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue.

Pursuant to §229 of House File 2627 of the 2002 General Assembly, the refunding needs to be done in coordination with the Tobacco Settlement Authority since the principal payments and a portion of the interest payments, through July 1, 2007, for both series of bonds to be refunded are being paid with tobacco bond proceeds.

Correspondence was sent to the Tobacco Settlement Authority and authorization to proceed with the refunding was received. Consistent with the request of the Tobacco Settlement Authority, the July 1, 2005 maturities of the outstanding bonds will not be refunded.

The proposed refunding would be a current refunding. The call date for the Series 1993 bonds was July 1, 2003 and the call date for the Series 1994 bonds is July 1, 2004.

It is anticipated that the refunding will result in net future and net present value savings in future tuition replacement appropriations between 2006 and 2015 of approximately $410,000 and $340,000, respectively.

The last maturity for the refunding bonds will be 2015, consistent with the last maturity of the bonds to be refunded.

Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for individuals who are Iowa residents and purchase the bonds.

Background:

Interest Rates

Bond coupon rates and the net interest rate for Regent bonds are very dependent upon market conditions at the time of issuance.

The net interest rate for Academic Building Revenue Bonds (including refunding bonds) issued since 1971 has ranged from a low of 2.87% in 2003 to a high of 11.19% in 1981.

As interest rates decline, bonds can be refunded and annual and total debt service costs reduced. In the case of Academic Building Revenue Bonds, reduced annual debt service reduces the amount needed for the tuition replacement appropriation.

Tuition Replacement Appropriations

Tuition replacement appropriations represent an ongoing commitment of the state to meet the debt service cost of Academic Building Revenue Bonds. Tuition and fee revenues are pledged for debt service payments for the bonds and the tuition replacement appropriation replaces that university revenue.

Tuition replacement needs for each university are comprised of debt service payments (principal and interest), less the net interest earned on the sinking and reserve funds. As reserve funds are reinvested at interest rates lower than currently being earned, interest earnings will decline and the amount needed for the tuition replacement appropriation will increase, absent any refundings.

Portions of the FY 2002 – FY 2004 tuition replacement requirements were appropriated from the tax-exempt bond proceeds of the Restricted Capital Funds Account of the Tobacco Settlement Trust Fund based upon a schedule established by the State's Tobacco Settlement Authority.

Portions of the FY 2005 – FY 2007 tuition replacement requirements, including the bonds which are to be refunded, are scheduled to be paid from the tax-exempt bond proceeds. Consistent with §12E.12 Iowa Code, authorization for the refunding must be received from the Tobacco Settlement Authority.

Definition of Refunding

A refunding is the issuance of bonds whose proceeds are used to pay principal, interest and/or call premium, if any, of an existing debt obligation; the old (refunded) debt is replaced with new (refunding) bonds.

Analysis:

Bonds to be Refunded

The proceeds from the sale of the proposed bonds would be used to refund the 2006 – 2015 maturities of the Board's Academic Building Revenue Bonds, Series S.U.I. 1993 and Series S.U.I. 1994.

The principal to be refunded for the two issues totals $6,650,000.

The 1993 bonds, originally issued in the amount of $8,935,000, were sold to finance construction of an addition to the Pharmacy Building at the University of Iowa.

- The outstanding principal to be refunded totals $5,735,000.
- Coupon rates on the 2006 – 2015 maturities of the bonds range from 4.3% in 2006 to 4.6% in 2015.

The 1994 bonds were issued to refund the outstanding principal of the S.U.I. Series 1991 Academic Building Project Notes.

- The notes were issued to finance, in part, the remodeling of MacLean Hall and the planning for an addition to the Pharmacy Building after appropriations made by the 1989 General Assembly were deappropriated during the 1991 session. (The notes provided short-term financing pending a long-term funding source.)
- The outstanding principal to be refunded totals $915,000.
- Coupon rates on the 2006 – 2015 maturities of the 1994 bonds range from 4.7% in 2006 to 5.0% in 2015.

Current interest rates for bonds maturing in 2006 – 2015 are lower than the rates being paid on the outstanding bonds.

Refunding Bond Issue

The two refunded bond issues would be combined into one refunding bond issue.

The refunding bond issue of $6,695,000 includes issuance costs estimated at approximately $49,000.

Internal Revenue Service Requirements	Under Internal Revenue Service regulations, a current refunding must occur no more than 90 days prior to the payment of the refunded bonds. The sale of the refunding bonds would close in mid May and the refunded bonds would be called on July 1, 2004, meeting the requirements of the 90-day time period.
Receipt of Bids	The receipt and opening of bids is scheduled for 10:00 a.m. on Wednesday, April 21, 2004, and the award is scheduled for later that day. A representative of Springsted, Inc., will report on the bids received and make a recommendation to the Board for award of the bonds.

Bond Specifics	Average Maturity:	6.99 Years
	Bonds Dated:	May 1, 2004
	Interest Due:	January 1, 2005, and each July 1 and January 1 to maturity
	Interest Exemption:	Exempt from federal and state taxes for individual purchasers who are residents of Iowa
	Principal Due:	July 1, 2006 – 2015
	Optional Call:	None
	Denomination:	$5,000 and integral multiples thereof

Resolutions	Copies of the resolutions, which were prepared by Ahlers & Cooney and reviewed by Springsted, Inc., are available from the Board Office.
