

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Sale and Award of \$10,530,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2003

Date: March 31, 2003

Recommended Action:

Recommend that the Board adopt the following resolutions (see G.D.8), subject to receipt of acceptable bids:

1. A Resolution providing for the sale and award of \$10,530,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2003, 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 \$10,530,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2003, for the purpose of refunding the 2004 through 2012 maturities of the \$16,900,000 Academic Building Revenue Bonds, Series S.U.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 State University of Iowa.
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Executive Summary:

The Banking Committee is requested to recommend that the Board adopt two resolutions related to the sale, award and issuance of \$10,530,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2003.

At its March 2003 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to refund outstanding maturities of the S.U.I. Academic Building Revenue Bonds, Series 1993.

The proposed refunding would be a current refunding, as the call date for the outstanding bonds is July 1, 2003.

All outstanding bonds of the Academic Building Revenue Refunding Bonds, Series S.U.I. 1993 (originally issued in the amount of \$16,900,000) would be called and principal payments made on July 1, 2003.

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

The estimated net future value and net present value savings from the refunding in future tuition replacement appropriations between 2004 and 2012 total more than \$600,000 and \$500,000, respectively.

The maturity schedules for the bonds would not change with the refunding.

Interest on the refunding bonds would be exempt from federal and state taxes (double tax-exempt) for individuals who are residents of Iowa and purchase the bonds. Interest on the bonds to be refunded has also been double tax-exempt.

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 4.32% in 2002 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.

**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	<p>The proceeds from the sale of the proposed refunding bonds would be used to refund bond principal of the Board's Academic Building Revenue Refunding Bonds, Series S.U.I. 1993. The principal to be refunded totals \$10,485,000. There is no call premium.</p> <p>The 1993 refunding bonds were issued as advance refunding bonds (before the call date) and refunded the outstanding principal of the S.U.I. Series 1987 and S.U.I. Series 1987A bonds.</p> <p>Coupon rates on the outstanding 1993 Series Bonds range from 4.2% in 2004 to 4.625% in 2012.</p> <p>Interest rates are currently much lower than the rates on the outstanding bonds.</p>
Refunding Bond Issue	<p>The refunding bond issue of \$10,530,000, includes issuance costs estimated at approximately \$45,000.</p>
Internal Revenue Service Requirements	<p>Under Internal Revenue Service regulations, a current refunding must occur no more than 90 days prior to the payment of the refunded bonds.</p> <p>The sale of the refunding bonds would close in mid May and the refunded bonds would be called on July 1, 2003 (first call date), meeting the requirements of the 90-day time period.</p>
Bids	<p>The receipt and opening of bids is scheduled for 10:00 a.m. on Thursday, April 10, 2003 and the award is scheduled for 11:30 a.m. on the same day.</p>
Bond Specifics	<p>Average Maturity: 5.31 Years</p> <p>Bonds Dated: May 1, 2003</p> <p>Interest Due: January 1, 2004 and each July 1 and January 1 to maturity</p> <p>Interest Exemption: Exempt from federal and state taxes for individual purchasers who are Iowa residents</p> <p>Principal Due: July 1, 2004 – 2012</p> <p>Optional Call: The bonds are not subject to optional redemption</p> <p>Denomination: \$5,000 and integral multiples thereof</p>
Resolutions	<p>Copies of the resolutions, which were prepared by Ahlers Law Firm and reviewed by Springsted, Inc., are available from the Board Office.</p>