

**MEMORANDUM**

**To:** Banking Committee

**From:** Board Office

**Subject:** Resolutions for the Sale and Award of Academic Building Revenue Refunding Bonds, Series I.S.U. 2004A (\$5,430,000) and Series I.S.U. 2004B (\$3,135,000)

**Date:** April 12, 2004

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**Recommended Action:**

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

1. A Resolution providing for the sale and award of \$5,430,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2004A and \$3,135,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2004B, 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 \$5,430,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2004A, for the purpose of refunding the 2006 through 2020 maturities of the \$6,545,000 Academic Building Revenue Bonds Series I.S.U. 1994, dated October 1, 1994; and \$3,135,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2004B, for the purpose of refunding the 2005 through 2012 maturities of the \$5,315,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 1994, dated January 1, 1994.
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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 \$5,430,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2004A and \$3,135,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2004B.

At its March 2004 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds. The Series I.S.U. 2004A bonds would refund the 2006 - 2020 maturities of the Academic Building Revenue Bonds, Series I.S.U. 1994. The Series I.S.U. 2004B bonds would refund the 2005 - 2012 maturities of the Academic Building Revenue Refunding Bonds, Series I.S.U. 1994.

Both series of 1994 bonds have a call date of July 1, 2004.

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

Since different fund sources are currently being used to replace the university revenue, two separate series of I.S.U. refunding bonds will be issued.

Principal payments and a portion of the interest payments through July 1, 2007 on the Academic Building Revenue Bonds, Series I.S.U. 1994, originally issued in the amount \$6,545,000, are being paid with tobacco bond proceeds.

- Pursuant to §229 of House File 2627 of the 2002 General Assembly, the refunding of these bonds needs to be done in coordination with the Tobacco Settlement Authority. Correspondence was sent to the Tobacco Settlement Authority and authorization to proceed with the refunding was received. Consistent with the request of the Authority, the July 1, 2005 maturities of these bonds will not be included in the refunding.
- The estimated net future value and net present value savings from the refunding of the 2006 – 2020 maturities of these bonds in future tuition replacement appropriations between 2006 and 2020 are approximately \$675,000 and \$500,000.

Debt service payments on the Academic Building Revenue Refunding Bonds, Series I.S.U. 1994, originally issued in the amount of \$5,315,000, are being paid with general funds.

- The estimated net future value and net present value savings from the refunding of the 2005 – 2012 maturities of these bonds in future tuition replacement appropriations between 2005 and 2012 are approximately \$182,000 and \$160,000.

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

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**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. Reduced annual debt service on these bonds reduces the amounts needed for the tuition replacement appropriations, regardless of the funding sources.

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.

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**Analysis:**

Bonds to be  
Refunded

The proceeds from the sale of the proposed bonds would be used to refund the 2006 – 2020 maturities of the Board's Academic Building Revenue Bonds, Series I.S.U. 1994, and the 2005 – 2012 maturities of the Board's Academic Building Revenue Refunding Bonds, Series I.S.U. 1994.

The principal to be refunded for the two issues totals \$8,480,000.

While two separate refunding series will be issued, they will be offered in one official statement, helping to minimize the issuance costs.

1994 Academic  
Building Revenue  
Bonds

The 1994 Academic Building Revenue Bonds were issued in the amount of \$6,545,000 to pay the costs of constructing livestock facilities and completing fire safety and deferred maintenance improvements.

- The bonds become callable on July 1, 2004, without payment of any call premium;
- The outstanding principal of the bonds to be called is \$5,385,000; and
- The coupon (interest) rates on the 2006 – 2020 maturities which will be called range from 4.8% in 2006 to 5.4% in 2020.
  - Current interest rates for bonds maturing in these years are lower.

1994 Academic Building Revenue Refunding Bonds

The 1994 Academic Building Revenue Refunding Bonds were issued in the amount of \$5,315,000 to refund the outstanding principal of the 1987A Academic Building Revenue Bonds which were issued to pay a portion of the cost of a number of projects authorized by the 1987 General Assembly, including the Molecular Biology Building, Meat Irradiation Facility, Industrial Education Remodeling, and the Veterinary Medicine Research Institute Laboratory.

- The bonds become callable on July 1, 2004, without payment of any call premium;
- The outstanding principal of the bonds to be called is \$3,095,000; and
- The coupon (interest) rates on the 2005 – 2012 maturities which will be called range from 4.3% in 2005 to 4.6% in 2012.
  - Current interest rates for bonds maturing in these years are lower.

The Series 2004A and Series 2004B refunding bond issues total \$8,565,000 and include issuance costs estimated at approximately \$80,000.

Receipt of Bids

The receipt and opening of bids is scheduled for 10 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.

Resolutions

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

Bond Specifics

	<u>Series 2004A</u>	<u>Series 2004B</u>
Average Maturity:	9.90 Years	4.73 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 - 2020	July 1, 2005 - 2012
Optional Call:	Bonds maturing on or after July 1, 2014 are callable on any date on or after July 1, 2013	None
Denomination:	\$5,000 and integral multiples thereof	