

**MEMORANDUM**

**To:** Banking Committee  
**From:** Board Office  
**Subject:** Sale and Award of \$4,890,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2002  
**Date:** April 8, 2002

---

**Recommended Action:**

Recommend that the Board adopt the following resolutions (see G.D. 4), subject to receipt of acceptable bids:

1. A Resolution providing for the sale and award of \$4,890,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2002, 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 \$4,890,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2002, for the purpose of refunding the 2003 through 2015 maturities of the \$5,530,000 Academic Building Revenue Bonds, Series U.N.I. 1991, dated July 1, 1991, presently outstanding and heretofore issued by the Board to defray costs of building construction projects on the campus of the University of Northern Iowa.
- 

**Executive Summary:**

The Banking Committee is requested to recommend that the Board adopt two resolutions related to the sale, award and issuance of \$4,890,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2002.

At its March 2002 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 UNI Academic Building Revenue Bonds, Series 1991.

The refunding would be a current refunding, as the call date for the outstanding bonds is July 1, 2002. All outstanding bonds of the 1991 Series would be called and principal payments made on July 1, 2002.

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 and present value savings from the refunding in future tuition replacement appropriations between 2003 and 2015 total \$0.5 million and \$0.4 million, respectively.

---

**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 4.47% in 1998 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 from 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                      The proceeds from the sale of the proposed bonds would be used to refund bond principal in the amount of \$4,850,000 of the Board's Academic Building Revenue Bonds, Series U.N.I. 1991.

Coupon rates on the outstanding 1991 Series Bonds range from 7.35% in 2003 to 6.1% in 2015.

Current interest rates for bonds maturing in the same years are significantly lower.

The refunding will not extend the life of the 1991 bond issuance; the last maturity will continue to be 2015.

Internal Revenue Service                      Under Internal Revenue Service regulations, a current refunding must occur no more than 90 days prior to the payment of the refunded bonds.

**Bids** The receipt and opening of bids is scheduled for 10:00 a.m. and the award is scheduled for 1:30 p.m. on Wednesday, April 17, 2002.

**Bond Specifics**

Average Maturity: 7.8 Years  
Bonds Dated: May 1, 2002  
Interest Due: January 1, 2003 and each July 1 and January 1 to maturity  
Principal Due: July 1, 2003 – 2015  
Optional Call: Bonds maturing on or after July 1, 2013 are callable commencing July 1, 2012 and any date thereafter at par  
Denomination: \$5,000 and integral multiples thereof

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

---