

**MEMORANDUM**

**To:** Banking Committee  
**From:** Board Office  
**Subject:** Semi-Annual Report on Master Lease  
**Date:** April 9, 2001

**Recommended Action:**

Receive the semi-annual report on lease purchases under the master lease agreement.

**Executive Summary:**

The Board has established a master lease agreement to provide short-term financing (3 to 10 years) for real and personal property. The Regent Procedural Guide §7.32 requires that a semi-annual report on outstanding activity under the master lease agreement be submitted to the Banking Committee.

The aggregate amount for all leased real and personal property financed under the current (1996 effective date) master lease agreement through Wells Fargo Brokerage Services LLC (previously known as Norwest Investment Services) is limited to \$15 million, but the Board (lessee) may modify this amount. The Board approves each financing utilizing the master lease agreement and Wells Fargo must agree to lease the property.

Leases issued under the current master lease agreement total \$12.4 million (includes initial amounts financed as detailed in footnote 4, Table 1, page 5) as of March 31, 2001, leaving \$2.6 million of the \$15 million available for use. The institutions did not enter into any master lease agreements during the last six-month period.

The University of Iowa has indicated the possibility of using master lease financing within the next six months to acquire equipment for College of Medicine facilities at a total cost of \$4 million to \$5 million. Since borrowing of this amount would exceed the \$2.6 million available, Ahlers Law Firm has advised the Board Office that there should be a written, one page agreement between the parties (Wells Fargo and the Board) with a new aggregate, not-to-exceed amount at the time of the College of Medicine financing.

The Board's current agreement with Wells Fargo Brokerage Services LLC terminates on December 1, 2001. A Request for Proposals for a new agreement will be issued later this year.

Iowa Code §8.46 requires notification to the Legislative Fiscal Bureau of any lease-purchase or installment acquisition arrangement totaling \$50,000 or more at least thirty days prior to entering into the contract. A copy of this report is routinely sent to the Legislative Fiscal Bureau.

**Background:**

The Board has utilized the master lease concept since July 1985. Since November 1991, the master lease program has operated through Wells Fargo (previously known as Norwest Investment Services) as a result of competitive bidding through Request for Proposal (RFP) processes held in 1991 and 1996.

The current master lease agreement became effective December 1, 1996, for an initial two-year period with a provision to renew for one additional, three-year period upon mutual consent. At its October 1998 meeting, the Board approved extension of the agreement for the additional term. Wells Fargo agreed to this extension, which was effective December 1, 1998.

The Regents hold title to the leased real and personal property while Wells Fargo holds a first lien security interest; the extent of Wells Fargo's security interest is reduced as the principal is paid.

The lease financing option offers certain advantages for financing necessary and essential property.

- Leases do not have the high origination costs of small bond issues that result from establishment of bond reserve funds, underwriter discounts, and issuance expenses.
- The negotiation of lease financing terms and amortization schedules allows lease payments to be better matched with available cash flows. (The interest rate formula under the Wells Fargo agreement sets the rate at .58% over the "A" rated tax-exempt municipal bond yield for a ten-year lease, rising to a spread of 1.13% for a three-year lease.)

The Regent Procedural Guide §7.32 also provides that the institutions may execute vendor-financed leases or installment purchase agreements. Agreements in excess of \$100,000 for the universities and \$10,000 for the special schools are approved by the Executive Director and reported to the Banking Committee.

**Analysis:**

**1996 Master Lease Agreement**

The \$15 million aggregate finance amount for all property to be leased under the 1996 agreement is the sum of the initial lease amounts issued under the agreement.

The following table summarizes the amounts financed, to date, under the current agreement and the amounts outstanding as of March 31, 2001.

	Amount Financed to Date* <u>(\$ millions)</u>	Amount Outstanding as of 3/31/01 <u>(\$ millions)</u>
SUI	\$6.59	\$4.78
ISU	2.89	1.58
UNI	<u>2.90</u>	<u>1.59</u>
Total	\$12.38	\$7.95

\*The total for the University of Iowa includes the initial amount (\$3.8 million) for the Laundry Replacement Facility and not the sum refinanced (\$3.5 million). The total for the University of Northern Iowa includes the initial amount (\$2.9 million) for the Telecommunications System and not the sum refinanced (\$2.4 million).

During the six-month period ending March 31, 2001, the amount outstanding under the agreement declined from \$8.95 million to \$7.95 million. Since no new leases were entered into during the last six-month period, the difference is due solely to a reduction in the amount owed from previously authorized lease obligations, including the removal from the list outstanding of the Iowa State University live-fire simulator trailer (amount unpaid as of September 30, 2000 - \$172,318). The State Department of Public Safety and the Board of Regents entered into a 28E agreement for payment of the outstanding obligation for the trailer and the Department of Public Safety is now making payments directly to Wells Fargo.

### 1991 Master Lease Agreement

A total of \$200,000 is outstanding for Iowa State University on the 1991 Wells Fargo agreement for a scoreboard. (Table 1) November 2000 was the final maturity for the Iowa State University College of Veterinary Medicine Heating, Ventilating and Air Conditioning (HVAC) project, which was also financed under the 1991 agreement.

### Vendor-Financed Agreements

The institutions do not report any vendor financed agreements in excess of \$100,000. The last payment on the University of Northern Iowa agreement with IBM for computer equipment was March 31, 2001.

The special schools do not have any outstanding leases under the master lease agreements or any vendor-financed agreements in excess of \$10,000.



**TABLE 1**  
**Outstanding Obligations**  
**Master Lease Agreement**  
**As of March 31, 2001**

Institution	Date Issued	Final Maturity	Lessor	Amount Issued	Amount Outstanding	Interest Rate	Purpose/Explanation
University of Iowa	09/10/98	11/01/03	Wells Fargo	\$ 468,989 <sup>1</sup>	\$ 267,041	5.13%	Hydraulic Research Modeling Facility
	09/10/98	05/01/08	Wells Fargo	3,476,171 <sup>2</sup>	2,716,012	5.18%	Laundry Replacement Facility
	12/10/98	11/01/03	Wells Fargo	524,000	327,587	4.83%	Equipment/Furnishings - Division of Alumni Records
	11/30/99	11/01/04	Wells Fargo	1,800,000	1,472,304	5.63%	Equipment/Furnishings - University Services Building
			SUI Subtotal:	\$ 6,269,160	\$ 4,782,944		
Iowa State University	07/94	11/04	Wells Fargo	\$ 450,000	\$ 199,647	5.58%	Scoreboard
	07/97	05/07	Wells Fargo	170,000	120,006	5.78%	Swine Building
	11/97	11/03	Wells Fargo	990,000	533,959	5.36%	Biomass Energy Conversion Facility
	02/98	05/03	Wells Fargo	900,000	483,705	5.03%	Hilton Coliseum Video Board
	08/98	05/04	Wells Fargo	510,000	312,320	5.21%	Anaerobic Digester
	07/99	05/09	Wells Fargo	189,000	---	5.48%	Live-Fire Simulator
	07/00	11/00	Wells Fargo	127,000	127,000	5.63%	Lakeside Laboratory Housing
			ISU Subtotal:	\$ 3,336,000	\$ 1,776,637		
University of Northern Iowa	12/08/98	05/01/04	Wells Fargo	\$ 2,403,618 <sup>3</sup>	\$ 1,594,233	4.86%	Lucent Telecommunications System
Iowa School for the Deaf	-----	-----	-----	\$ 0	\$ 0	-----	No outstanding Master Lease obligations
Iowa Braille and Sight Saving School	-----	-----	-----	\$ 0	\$ 0	-----	No outstanding Master Lease obligations
			Subtotal:	\$ 450,000	\$ 199,647		1991 Wells Fargo Master Lease Agreement
			Subtotal:	11,558,778 <sup>4</sup>	7,954,167		1996 Wells Fargo Master Lease Agreement
			Total:	\$ 12,008,778	\$ 8,153,814		

<sup>1</sup> The Hydraulic Research Modeling Facility was financed in the amount of \$559,000 under the 1991 Wells Fargo Master Lease Agreement in November 1996 and refinanced under the 1996 Agreement in September 1998 in the amount of \$468,989.

<sup>2</sup> The Laundry Replacement Facility was financed under the 1996 Master Lease Agreement in January 1997 in the amount of \$3.8 million and refinanced in the amount of \$3,476,171 in September 1998.

<sup>3</sup> The Lucent Telecommunications System was financed under the 1996 Master Lease Agreement in March 1997 in the amount of \$2.9 million and refinanced in the amount of \$2,403,618 in December 1998.

<sup>4</sup> The total amount financed under the 1996 Master Lease Agreement is \$12,378,989 which includes the initial amount of the leases for the SUI Laundry Replacement Facility (\$3.8 million) and the UNI Lucent Telecommunications System (\$2.9 million).

<sup>5</sup> State Department of Public Safety and Board of Regents have entered into a 28E agreement regarding payment of the outstanding obligation for the trailer; Department of Public Safety is making payments directly to Wells Fargo.