MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Resolutions for the Sale and Award of $6,210,000 Recreational Facility Revenue Refunding Bonds, Series I.S.U. 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 $6,210,000 Recreational Facility Revenue Refunding Bonds, Series I.S.U. 2004, and approving and authorizing the agreement of such sale and award.


Executive Summary:

The Banking Committee is requested to recommend that the Board adopt two resolutions related to the sale and award and issuance of $6,210,000 Recreational Facility Revenue Refunding Bonds, Series I.S.U. 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 outstanding principal of the 1994 I.S.U. Recreational Facility Revenue Refunding Bonds.

The outstanding maturities (2005 – 2010) of the 1994 bonds, which total $6,790,000, would be called and principal payments made on July 1, 2004, which is the call date for the 1994 bonds.

- The sale amount of refunding bonds is less than the outstanding principal of the bonds to be refunded since a portion of the prior issue debt service reserve fund can be used as a source of funds for the refunding.

Debt service payments on the 2004 bonds, which will mature on July 1, 2010, would continue to be paid from a portion of the University’s mandatory building fee and funds from the Department of Intercollegiate Athletics.
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. Interest on the bonds to be refunded has also been double tax-exempt.

**Background:**

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<th>Interest Rates</th>
<th>Bond coupon rates and the net interest rate for Regent bonds are very dependent upon market conditions at the time of issuance.</th>
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<td>As interest rates decline, bonds can be refunded and annual and total debt service costs reduced.</td>
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<td>Definition of Refunding</td>
<td>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.</td>
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<td>Statutory Provisions</td>
<td>Under the provisions of Iowa Code Chapter 262, the Board is authorized to construct, equip, maintain and operate self-liquidating and revenue producing facilities at the universities; the Board is also authorized to borrow money to construct or improve these facilities.</td>
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<td>The sources of repayment are the income and revenues to be derived from the operation or use of the facility and from any fees or charges implemented by the Board to students for whom the facilities are made available.</td>
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<td>The University’s Recreational Facility is a self-liquidating enterprise.</td>
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**Analysis:**

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<th>Bonds to be Refunded</th>
<th>The proceeds from the sale of the proposed refunding bonds would be used to refund bond principal of the Board’s Recreational Facility Revenue Refunding Bonds, Series I.S.U. 1994.</th>
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<td>The 1994 refunding bonds were issued as advance refunding bonds (before the call date) and refunded the callable bonds (1998 - 2009 maturities) of the Board’s Recreational Facility Revenue Bonds, Series I.S.U. 1987.</td>
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<td>• The 1987 bonds were issued in the amount of $14,690,000 to finance construction of a combined recreation / athletic facility; this facility is currently known as the Lied Recreation / Athletic Center.</td>
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<td>The 1994 bonds become callable on July 1, 2004, without payment of any call premium.</td>
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<td>The principal of the 1994 bonds to be refunded totals $6,790,000.</td>
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Coupon (interest) rates on the outstanding 1994 bonds range from 4.4% in 2005 to 4.6% in 2010.

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

Debt service on the 1994 bonds is paid with a portion of the University’s mandatory building fee and funds from the Department of Intercollegiate Athletics.

Student fees collected for the Recreational Facility totaled $876,646 for FY 2003 according to the bond fund audit; the amount was based on a student fee of $30.50 for the academic year and $15.25 for the summer session.

In May 2003, the Board allocated the sum of $30.50 of the student’s mandatory building fee of $106 for the 2003 - 2004 academic year to the Recreational Facility. (The allocation for the summer is $7.63 of the $26.50 building fee.)

At its November 2003 meeting, the Board approved a mandatory building fee of $106 for the 2004 - 2005 academic year; this fee is scheduled to be allocated among facilities at the May 2004 Board meeting.

Under the bond resolution adopted when the 1987 bonds were issued, the Department of Intercollegiate Athletics is to transfer an amount equal to 32.5% of the interest due on the next interest payment date and 16.25% of the bond principal maturing on the next principal payment date.

- Before these amounts are calculated, interest income from the invested funds is credited toward the sinking fund obligation.

- The Department of Intercollegiate Athletics has budgeted $425,000 for FY 2004 for its share of the debt service payments. After the interest income is credited, the Department’s costs will total approximately $400,000.

Debt service payments on the 2004 bonds would continue to be paid from a portion of the University’s mandatory building fee and funds from the Department of Intercollegiate Athletics.

The size of the refunding bond issue is $6,210,000, including issuance costs estimated at $48,000. The balance of the principal being refunded will be paid from funds on deposit in the debt service reserve fund.

According to calculations of Springstid, the Board’s financial advisor, the estimated net present value savings from the refunding should approximate $185,000.

Lower interest rates and the reduced bond principal should result in an average annual cash flow savings of more than $135,000 from 2005 – 2009.
Since the debt service reserve fund would be reduced in size as part of the refunding, additional cash will be needed to make the debt service payment in 2010 (as opposed to having the entire payment made by the funds in the reserve fund); this results is a negative cash flow savings in 2010.

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.

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 (first call date), meeting the requirements of the 90-day time period.

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

Bond Specifics
Average Maturity: 3.77 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, 2005 – 2010
Optional Call: None
Denomination: $5,000 and integral multiples thereof