

MEMORANDUM

To: Banking Committee
From: Board Office *GEN*
Subject: Resolution for the Abandonment of Westgate and Storms Residence Halls (ISU)
Date: March 31, 2003

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 8) directing the abandonment of Westgate and Storms Dormitories at Iowa State University of Science and Technology.

Executive Summary:

Bond resolutions for Iowa State University's Residence System require specific approval of the Board of Regents prior to the abandonment of any units in the system.

Iowa State University's Residence System Five-Year Plan presented to the Board in March 2003, noted that Westgate Hall, an 83-bed suite facility, was scheduled for demolition during the summer of 2003, to be replaced with parking.

- In its capital register this month (see G.D. 15b), the University has included a project description and budget (\$195,200) for the demolition of the facility.

The Residence System Five-Year Plan also included the closing of Storms Hall beginning with the 2003-2004 academic year (FY 2004).

The Board will find and determine, under the resolution which is being recommended for its approval, that the age and physical condition of the existing beds are such that their economical operation as a component of the Residence System is not possible.

The resolution also includes a determination that the net rents, profits and income of the Residence System, without the income from the beds to be abandoned, are sufficient to meet the specific financial requirements of the bond covenants.

Background:

Westgate Hall	<p>Westgate Hall, a 27,252 gross square foot facility constructed in 1955, is located at the intersection of Union Drive and Sheldon Avenue. (A map showing the location is included as Attachment A to this memorandum.)</p> <p>The University reports that the building has exceeded its life expectancy and that a major renovation would be needed to make it functional again.</p> <p>The demolition was included in the Union Drive Neighborhood Master Plan presented to the Board in December 2000.</p> <p>The University reports that a separate project will be created to construct a parking lot on the site in the future.</p>
Storms Hall	<p>Storms Hall is part of the 256,749 gross square foot Knapp-Storms Complex which was constructed beginning in 1965. (A map showing the location is included as Attachment B to this memorandum.)</p> <p>The Residence Hall, which is part of the Towers Neighborhood, is scheduled to close following the current semester due to a lack of demand; the closure will remove 580 dormitory style beds from the system.</p> <p>The closing of Storms Hall, which suffers from significant deferred maintenance, was included in the Residence System Master Plan presented to the Board in July 1998 and the Master Plan Progress Report presented in July 2000.</p> <p>Demolition of the building is scheduled for the summer of 2006 (FY 2007).</p>
2003-2004 Room Rates	<p>The proposed residence system rates presented to the Board in March 2003 and this month (see G.D. 9) do not include room rates for either Westgate or Storms Halls for the 2003-2004 academic year.</p>

Analysis:

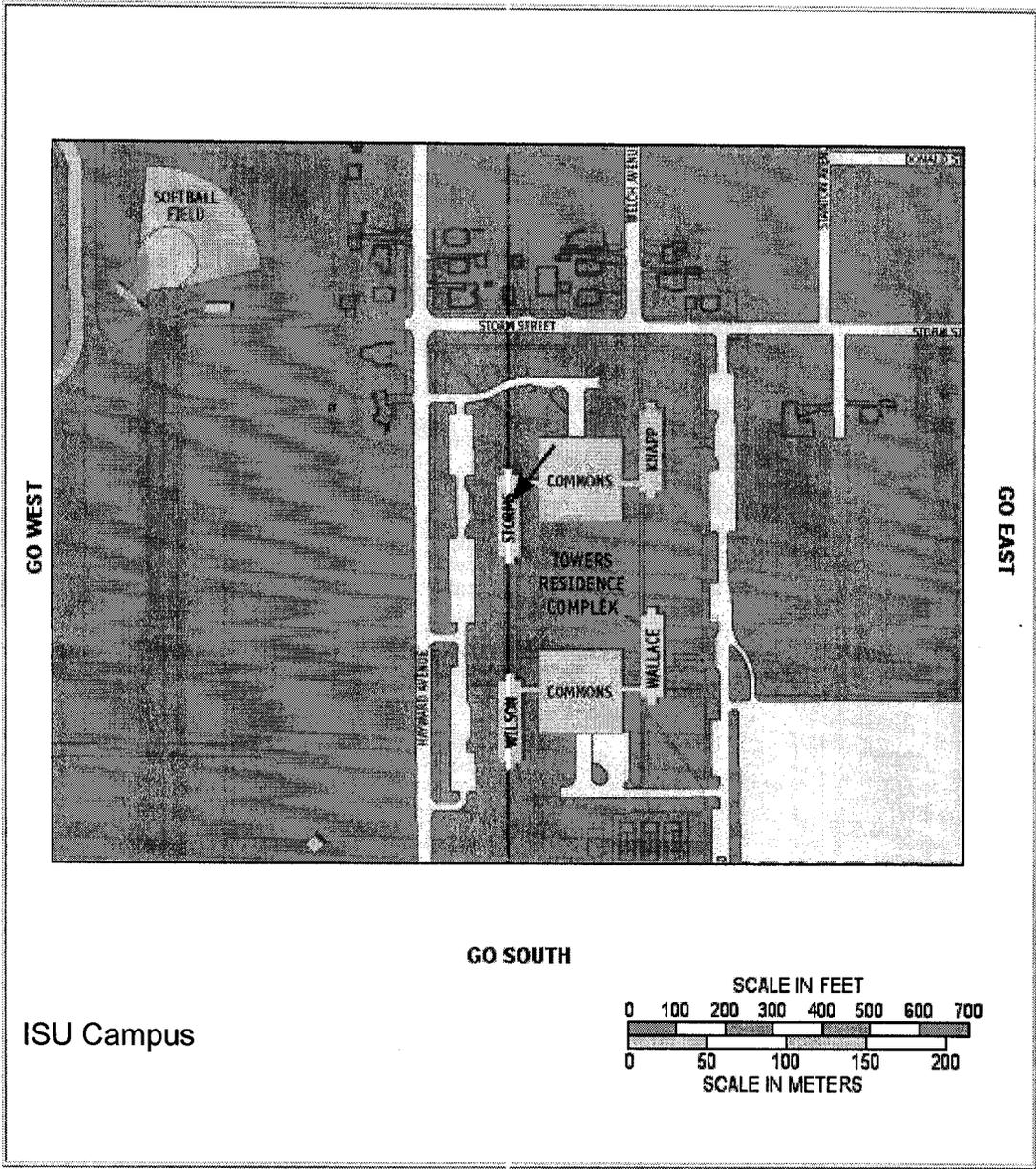
Buildings to be Abandoned	<p>The demolition of Westgate Hall, for which a project description and budget (\$195,200) are being requested this month as part of the University's capital register, would be funded by Residence System Funds.</p> <p>Storms Hall would be closed at the end of this academic year, with demolition scheduled for the summer of 2006. The demolition of this facility would also be financed with Residence System Funds.</p>
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Certification

Warren R. Madden, as Chief Financial Officer of the University, has determined that the net income of the Residence System, after taking into account the abandonment of the beds in Westgate and Storms Halls, with adjustments for increases in the rates and the additional facilities being incorporated into the System, will be equal to or greater than 1.35 times the maximum annual amount (as defined in the bond resolutions) to be due in any succeeding year for the payment of principal and interest on all Dormitory Revenue Bonds of the University which are outstanding.

The necessary certification is included as Attachment C to this memorandum. Although the certification makes specific reference to the proposed bond issuance of \$21,575,000 Dormitory Revenue Bonds, the Board's bond counsel has advised the Board Office that this certification can also be used for the abandonment of the two buildings since the financial proforma in Attachment C includes the abandonment of Westgate and Storms Halls.

Copies of the resolution directing the abandonment, which was prepared by the Ahlers law firm, are available from the Board Office.



CERTIFICATE OF FINANCIAL OFFICER

TO THE BOARD OF REGENTS, STATE OF IOWA:

As the Financial Officer of the Iowa State University of Science and Technology, I have prepared the following certification of the estimated net revenues of the Residence System (as defined in the resolution adopted by the Board of Regents, State of Iowa (the "Board") on June 18, 1964 to authorize the issuance of its \$14,950,000 Dormitory Revenue Bonds, Series I.S.U. 1964A, and in subsequent resolutions authorizing the issuance of various series of outstanding dormitory revenue bonds ranking on a parity therewith.

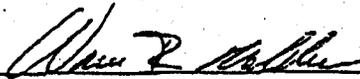
In order to comply with the requirements and limitations provided in said resolution and in subsequent parity bond resolutions applicable to the issuance of additional dormitory revenue bonds ranking on a parity, I make this certification specifically with respect to the proposed issuance of \$21,575,000 Dormitory Revenue Bonds, Series I.S.U. 2003.

I certify that it is my opinion based upon necessary investigations that the net revenues of the Residence System available for debt service will not be less than 150% of the maximum amount that will become due for both principal and interest on the dormitory revenue bonds now outstanding and the bonds proposed to be issued (assuming the maturities as stated in the preliminary Official Terms of Offering dated February 28, 2003, and an average annual interest rate of 4.85% or less), in any fiscal year prior to the longest maturity of any of the presently outstanding bonds which are payable through July 1, 2029. In compliance with the terms of the outstanding dormitory revenue bonds, "net revenues of the System available for debt service" as used herein consists of the estimated average annual net revenues for the entire System (based upon not greater than 93% occupancy of residence hall, dormitory and dining facilities capacity as determined by the regulations for occupancy and use now in effect), including those facilities now in operation, those now under construction and those being financed through the issuance of the proposed additional bonds, respectively, for the first two fiscal years after completion of the facilities to be paid for from the proceeds of each series of the proposed additional bonds.

I have further investigated, and it is my opinion, that the net rents, profits and income of the Residence System for the last completed fiscal year ending June 30, 2002, including earnings from investments, exceeded 135% of the amount of principal and interest due in

that fiscal year. I further certify that payments required by the outstanding bond resolutions to be made into the Dormitory Revenue Bond Sinking Fund or the Bond Reserve Fund are not in arrears and that no additional amount of capitalized interest is required to be included in the bond issuance to maintain such coverage at the rate of 135% for the construction period. I further certify that the facilities to be constructed from the proceeds of the Series I.S.U. 2003 Bonds will be completed and first available to the University for a full fiscal year beginning July 1, 2006.

Before presenting this certificate to the Board, I have submitted the same to the Auditor of State, being the independent public accountant who made the last audit of the Residence System, for comments as to the basis upon which estimates are made herein as to revenues to be derived from facilities not now in operations and submit the comments of said Auditor of State with this certificate. Attached hereto are tables setting forth my opinion as stated above with respect to net revenues of the Residence System available for debt service in the first two fiscal years after completion of the facilities to be paid for from the proceeds of the additional bonds proposed to be issued.



Warren R. Madden
Vice President for Business and Finance

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IOWA STATE UNIVERSITY
 Department of Residence - Master Plan
 UDA Suite 2 Bond Issue

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenue												
Room	19,194,987	23,859,147	27,760,749	29,596,757	29,643,132	31,937,883	33,633,585	34,350,071	34,075,655	36,031,454	36,877,203	38,364,026
Family Apartments	3,748,168	3,749,094	4,081,065	4,280,817	4,595,305	4,777,204	4,967,735	5,164,814	5,370,499	5,584,917	5,808,102	6,040,092
Dining	15,917,145	15,977,773	17,204,461	18,363,633	18,871,370	19,620,854	20,906,959	21,090,209	20,693,818	22,175,183	22,384,668	23,271,353
Interest	2,736,254	2,912,057	1,895,705	1,878,803	1,829,376	1,247,407	1,279,872	1,347,166	1,342,499	1,306,004	1,363,047	1,486,361
	41,596,554	46,498,071	50,941,980	54,120,010	54,939,184	57,583,349	60,788,150	61,952,260	61,482,471	65,097,558	66,433,020	69,161,832
Expenses												
Room	15,515,090	17,950,940	18,771,479	20,525,944	21,020,593	22,517,803	23,544,023	24,407,252	23,891,223	24,771,824	25,630,068	26,654,235
Family Apartments	2,265,916	2,587,621	2,692,044	2,611,661	2,734,263	2,843,550	2,957,380	3,075,654	3,198,752	3,326,837	3,460,071	3,598,620
Dining	12,027,348	12,684,746	13,476,289	14,829,527	15,934,509	16,715,896	17,580,423	17,961,063	18,227,897	19,290,512	19,701,666	20,480,040
Interest	29,808,354	33,223,306	34,939,813	37,967,132	39,689,364	42,077,249	44,081,825	45,443,969	45,317,872	47,389,173	48,791,805	50,732,895
Operating Income - Room	3,679,897	5,908,207	8,989,270	9,070,813	8,622,540	9,420,080	10,089,562	9,942,819	10,184,432	11,259,630	11,247,136	11,709,791
Operating Income - Apartments	1,482,252	1,161,474	1,389,021	1,669,156	1,861,042	1,933,654	2,010,355	2,089,160	2,171,748	2,258,080	2,348,031	2,441,472
Operating Income - Food	3,889,797	3,293,028	3,728,172	3,534,106	2,936,861	2,904,958	3,326,336	3,129,146	2,465,921	2,884,671	2,683,002	2,791,313
Operating Income - Interest	2,736,254	2,912,057	1,895,705	1,878,803	1,829,376	1,247,407	1,279,872	1,347,166	1,342,499	1,306,004	1,363,047	1,486,361
	11,788,200	13,274,765	16,002,168	16,152,878	15,249,819	15,506,099	16,706,325	16,508,291	16,164,599	17,708,385	17,641,215	18,428,937
Net Operating Income	5,043,100	6,449,789	7,773,015	9,080,876	10,524,160	10,861,817	10,515,971	10,517,464	10,491,631	9,523,344	9,525,549	9,531,163
Debt Service	5,030,634	3,807,893	2,820,106	5,206,234	14,375,661	3,092,904	2,840,272	4,242,563	7,027,780	5,218,766	3,587,050	3,698,531
Annual Capital Improvements	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Sinking and Improvement Transfer	363,022	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000
Scholarships	720,375	720,375	749,478	749,478	764,468	779,757	795,352	811,259	827,484	844,034	860,915	878,133
University Overhead	11,657,131	11,838,057	12,202,599	15,896,588	26,524,288	15,594,478	15,011,595	16,431,286	19,206,896	16,446,144	14,833,514	14,967,827
Subtotal	131,069	1,436,708	3,799,568	256,290	(11,274,469)	(88,379)	1,694,730	77,005	(3,042,296)	1,262,241	2,807,701	3,461,110
Change is Surplus Balance	9,031,192	10,467,901	14,267,469	14,523,759	3,249,290	3,160,911	4,855,642	4,932,647	1,890,351	3,152,591	5,960,292	9,421,403
Cumulative Dept Surplus												
Coverage Ratio--Annual	2.34	2.06	2.06	1.78	1.45	1.43	1.59	1.57	1.54	1.86	1.85	1.93
Coverage Ratio--Max Debt Ser.		1.22	1.47	1.49	1.40	1.43	1.59	1.57	1.54	1.85	1.84	1.92

Alternative Test #2 - 1st two years of full operation - minimum 1.50

Test #1 - Year preceding date of issue - minimum 1.35

**IOWA STATE UNIVERSITY
 Department of Residence - Master Plan
 UDA Suite 2 Bond Issue**

CURRENT ASSUMPTIONS:
 FY

General Interest income is derived from unexpended funds available for investment throughout the annual period from the following fund types:
 Revenue fund, Reserve Funds, Surplus Fund, and Construction Funds. These funds are assumed to earn interest at the simple rate of 3.0% per annum.
 Rate increases for FY05 and beyond: all suite and dormitory style room contracts 4%, Frederiksen Court Apartments 4%, University Family Housing 4%.
 Meal Contracts, Retail Dining, Catering 4%
 Conferences 4%, Misc 2%
 Expense increases: 4%

		Maximum Debt Service
FY00		10,861,817
FY01		10,861,817
FY02		10,861,817
FY03		10,861,817
FY04		10,861,817
FY05		10,861,817
FY06		10,517,464
FY07		10,517,464
FY08		10,491,631
FY09		9,595,980
FY10		9,595,980
FY11		9,595,980

- 2000 FY2000 operating results per FY2000 audited.
- 2001 FY2001 operating results per FY2001 audited.
- 2002 FY2002 operating results per FY2002 audited.
- 2003 Financial impact of Helsler - North demolition (-340 dormitory beds) reflected in FY02. Cost \$216.2K.
- 2003 Submitted budget, as adjusted for current forecast.
- 2003 \$21.67M bonds for UDA Utilities and Suite 1 (+319 suite beds); issued Jan-01 at 4.9%, on-line fall 02.
- 2003 Buchanan Hall off-line FY2003 (-390 suite beds); back on-line FY2005 (+409 suite beds) with new rates for older students. Mandatory meal plans.
- 2004 \$14.98M bonds for UDA Community Center issued Jan-2002, on-line fall 03.
 Increased food costs at 35%, increased staffing levels.
- 2004 Demolition Westgate Hall (-83 suite beds) summer 2003; Cost \$186K.
- 2004 Storms Hall (-580 dormitory beds) and K/S dining center closed. Demolition Storms Hall in FY 2007. Cost \$1.4M. Knapp Hall residents fed from WW dining center.
- 2005 \$21.60M bonds for UDA Suite 2 issued Mar-03 @ 5.0%, on-line fall 2004 (+332 suite beds).
- 2005 Knapp Hall closed FY05 (-580 dormitory beds). Demolition in FY 2009. Cost \$1.74M.
- 2008 Helsler-South Demolished (-713 dormitory beds). Cost \$704K.
- 2008 UDA Site Clean up. Cost \$2.95M.