

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Semi-Annual Master Lease Report
Date: April 8, 2002

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 Policy Manual §7.32 requires that a semi-annual report on outstanding activity under the master lease agreement be submitted to the Banking Committee.

The master lease program has operated through Wells Fargo (previously known as Norwest Investment Services) as a result of Request for Proposal processes held in 1991, 1996, and 2001.

The Board approves each financing utilizing the master lease agreement and Wells Fargo must agree to lease the property.

No leases have been entered into under the current agreement (effective January 1, 2002).

Leases issued under the 1996 agreement totaled \$12.4 million (includes initial amounts financed as detailed in footnote 5, Table 1, page 4).

The institutions did not enter into any new leases under the master lease agreement during the last six-month period.

Only Iowa State University has indicated specific plans to use master lease financing during the next six months.

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).

Current Agreement The current master lease agreement, which provides that principal of up to \$20 million may be outstanding at any one time for leased property, became effective January 1, 2002; the agreement is for an initial two-year period with a provision to renew for one additional, three-year period upon mutual consent.

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.

Advantages 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.

Interest Rate The interest rate formula under the Wells Fargo current agreement sets the rate at .82% over the "A" rated tax-exempt municipal bond yield for a ten-year lease, rising to a spread of 1.74% for a four-year lease; the spread is reviewed annually and may be adjusted downward to reflect market conditions.

Vendor-Financed The Regent Policy Manual §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 Agreement The following table summarizes the amounts financed and the amounts outstanding as of March 31, 2002.

	Amount Financed* <u>(\$ millions)</u>	Amount Outstanding as of 3/31/02 <u>(\$ millions)</u>
SUI	\$6.59	\$3.96
ISU	2.89	1.27
UNI	<u>2.90</u>	<u>1.17</u>
Total	\$12.38	\$6.40

*As noted in Table 1, page 5, the total sum financed includes the initial amounts for all leases and not the amounts which may have been refinanced.

During the six-month period ending March 31, 2002, the amount outstanding under the agreement declined from \$7.13 million to \$6.40 million.

Since no new leases were entered into during this period, the difference is due to a reduction in the amount owed from previously authorized lease obligations.

1991 Agreement A total of \$154,000 is outstanding for Iowa State University for a scoreboard for Jack Trice Stadium. (Table 1) The final maturity for this lease is November 2004.

Vendor-Financed Agreements Iowa State University has two vendor-financed agreements in excess of \$100,000; the agreements are with Apple Computer for the College of Design Computer Lease Program.

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

Anticipated Future Use The University of Iowa reports that, at this time, it anticipates no master lease financing within the next six months but is contemplating the use of master lease financing on several projects that are in the planning stages.

Iowa State University plans to use master lease financing for the scoreboard and video display system for Jack Trice Stadium (See B.C. 6).

The University of Northern Iowa has no plans to use master lease financing in the next six months.

TABLE 1
Outstanding Obligations
Master Lease Agreement
As of March 31, 2002

Institution	Date Issued	Final Maturity	Lessor	Amount Issued	Amount Outstanding	Interest Rate	Purpose/Explanation
<i>University of Iowa</i>							
	09/10/98	11/01/03	Wells Fargo	\$ 468,989	\$ 182,496	5.13%	Hydraulic Research Modeling Facility
	09/10/98	05/01/08	Wells Fargo	3,476,171	2,411,169	5.18%	Laundry Replacement Facility
	12/10/98	11/01/03	Wells Fargo	524,000	223,559	4.83%	Equipment/Furnishings - Division of Alumni Records
	08/28/01	11/01/04	Wells Fargo	1,336,062	1,141,082	4.56%	Equipment/Furnishings - University Services Building
			SUI Subtotal:	\$ 5,805,222	\$ 3,958,306		
<i>Iowa State University</i>							
	07/94	11/04	Wells Fargo	\$ 450,000	\$ 153,777	5.58%	Scoreboard
	07/97	05/07	Wells Fargo	170,000	104,309	5.78%	Swine Building
	11/97	11/03	Wells Fargo	990,000	365,300	5.36%	Biomass Energy Conversion Facility
	02/98	05/03	Wells Fargo	900,000	297,400	5.03%	Hilton Coliseum Video Board
	08/98	05/04	Wells Fargo	510,000	228,746	5.21%	Anaerobic Digester
	07/99	05/09	Wells Fargo	189,000	---	5.48%	Live-Fire Simulator
	07/00	11/10	Wells Fargo	127,000	118,855	5.63%	Lakeside Laboratory Housing
			ISU Subtotal:	\$ 3,336,000	\$ 1,268,387		
<i>University of Northern Iowa</i>							
	12/08/98	05/01/04	Wells Fargo	\$ 2,403,618	\$ 1,165,737	4.86%	Lucent Telecommunications System
<i>Iowa School for the Deaf</i>							
	----	----	----	\$ 0	\$ 0	----	No outstanding Master Lease obligations
<i>Iowa Braille and Sight Saving School</i>							
	----	----	----	\$ 0	\$ 0	----	No outstanding Master Lease obligations
			Subtotal:	\$ 450,000	\$ 153,777		1991 Wells Fargo Master Lease Agreement
			Subtotal:	11,094,840	6,238,653		1996 Wells Fargo Master Lease Agreement
			Total:	\$11,544,840	\$6,392,430		

¹ 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.

² 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.

³ Equipment and furnishings for the University Services Building were financed under the 1996 Master Lease Agreement in November 1999 in the amount of \$1.8 million and refinanced in the amount of \$1,336,062 in August 2001.

⁴ 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.

⁵ 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 Replacer Facility (\$3.8 million), the UNI Lucent Telecommunications System (\$2.9 million), and SUI University Services Building Equipment and Furnishings (\$1.8 million).

⁶ 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.

TABLE 2
Outstanding Obligations
Additional Leases over \$100,000
As of March 31, 2002

<u>Institution</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Lessor</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Purpose/Explanation</u>
Iowa State University	10/01	05/04	Apple Computer	\$105,768	\$ 87,631	3.50%	Apple Computer Lease
	10/01	05/04	Apple Computer	148,971	122,934	5.00%	Apple Computer Lease