

BOARD OF REGENTS
BANKING COMMITTEE

November 14, 2001

The Banking Committee of the Board of Regents met on Wednesday, November 14, 2001, at the University of Northern Iowa, Cedar Falls, Iowa.

Those present were:

Banking Committee members: Regents David Fisher (chair), Amir Arbisser, Mary Ellen Becker (arrived at 10:46 a.m.), David Neil, and Owen Newlin.

Others in attendance were:

Regent Sue Nieland (arrived at 10:46 a.m.);

Institutional representatives: Douglas True, Mark Schantz, Cynthia Bartels, Richard Saunders, Gregory Geoffroy, Warren Madden, Joan Thompson, Brad Dye, Robert Koob, Eunice Dell, Gary Shontz, Tim McKenna, Jim Heuer, Luann Woodward;

Ken Haynie and Ed Bittle, Ahlers law firm;

Barry Fick, Springsted;

Mark Brubaker, Wilshire Associates;

Kent Schroeder, Vice Chair of the Nebraska Board of Regents;

Board Office: Pamela Elliott, Charles Wright, Joan Racki, Deb Hendrickson, Andrea Anania and Barb Briggie.

Regent Fisher called the meeting to order at 10:30 a.m.

APPROVE MINUTES OF THE OCTOBER 2001 BANKING COMMITTEE MEETING.

MOTION:

Regent Neil moved to approve the minutes of the October 17, 2001, Banking Committee meeting, as written. Regent Newlin seconded the motion.
MOTION CARRIED UNANIMOUSLY.

RESOLUTIONS FOR THE SALE AND AWARD OF \$4,835,000 MEMORIAL UNION REVENUE REFUNDING BONDS, SERIES SUI 2001.

Vice President True stated that the Board's financial and bond advisors would report on the rates received on the refinancing.

Mr. Fick reported that bids were taken that morning and very favorable interest rates were received. The winning bid, submitted by a group led by A.G. Edward and Sons, was for a true interest rate of 3.315 percent, which replaces bonds with coupon rates of 6.1 percent.

Mr. Haynie stated that the winning bid was a straight-forward bid. When the old bonds are called, a call premium averaging 1.7 percent will have to be paid.

Regent Fisher asked for the amount of savings as a result of refinancing the bonds. Mr. Fick said he would have that information for the Board meeting. He expected that the savings would exceed what was projected.

MOTION: Regent Newlin moved to recommend that the Board adopt the following resolutions: (1) A Resolution providing for the sale and award of \$4,835,000 Iowa Memorial Union Revenue Refunding Bonds, Series S.U.I. 2001, 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 \$4,835,000 Iowa Memorial Union Revenue Refunding Bonds, Series S.U.I. 2001, for the purpose of defraying costs of refunding Iowa Memorial Union Revenue Bonds, Series S.U. I. 1986, now outstanding in the amount of \$5,025,000, funding a reserve fund and paying the costs of issuance. Regent Neil seconded the motion. **MOTION CARRIED UNANIMOUSLY.**

RESOLUTIONS FOR THE SALE AND AWARD OF \$5,625,000 FIELDHOUSE REVENUE BONDS, SERIES UNI 2001.

Mr. Shontz stated that bids were taken that morning for the Fieldhouse revenue bonds. The winning bid was for a true interest rate of 4.48 percent, which was very favorable.

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Mr. Fick stated that the winning bid was submitted by a group led by A.G. Edward and Sons. Since the bonds were extended to 2022, a term bond option was provided. Bond buyer rates are currently at 4.91 percent so the rate received for these bonds was at or below the AAA-rated bond level.

Regent Fisher asked if the reason the interest rate for this sale was higher than the earlier University of Iowa sale was because this is a longer series. Mr. Fick responded affirmatively, noting that 4.48 percent was still a very favorable rate. He noted that underwriters can place a higher coupon rate on the bonds and then charge purchasers accordingly.

Mr. Haynie stated that the bidder exercised the term bond option. Therefore, the bond schedule will look different than that in the official statement.

Regent Fisher asked what was the interest rate that was factored into the proforma. Mr. Fick responded that, most recently, the rate was 4.5 and 4.6 percent.

Regent Arbisser asked if the interest rate market was the reason that short-term interest rates (coupon) were not as low for the University of Iowa issue. Mr. Fick said the interest rates on the market are getting so low that underwriters are having difficulty enticing anyone to purchase the bonds. Consequently, the person purchasing the bonds will pay \$1.05 for \$1 worth of bonds. He said it was largely a marketing device for the underwriters.

President Newlin asked if there were other sources of revenues that would be needed to repay the \$5.6 million. Vice President Dell responded that the "fees" would pay the debt service.

MOTION:

Regent Arbisser moved to recommend that the Board adopt the following resolutions: (1) A Resolution providing for the sale and award of \$5,625,000 Field House Revenue Bonds, Series U.N.I. 2001, 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 \$5,625,000 Field House Revenue Bonds, Series U.N.I. 2001, for the purpose of defraying costs of repairing the structure and roof and providing other improvements to the UNI-Dome Field House located on the campus of the University of

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Northern Iowa, funding a reserve fund, and paying the costs of issuance. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.

PROPOSED BOND ISSUANCE SCHEDULE FOR CALENDAR YEAR 2002.

Associate Director Racki presented a summary of the information provided in the meeting materials. She said the proposed schedule for calendar year 2002 is only a planning guide. It does not include any bonds which would require legislative authorization. Approval of the schedule does not indicate that the Board Office has reviewed or recommended approval of all projects to be financed from the proposed sales or that the Board will approve the projects and the bond sale amounts.

Regent Fisher asked if there was any restriction from doing the refundings now instead of waiting until April or May. Mr. Fick responded that the refundings would be current refundings at that time. The funds would have to be invested until the call date if the refundings were done earlier. He said the decision was largely a function of the steepness of the yield curve.

Regent Fisher asked if the bond advisors were comfortable that the market will digest these bonds this year. Mr. Fick said he had no hesitation. The Board of Regents bond advisors have been talking with underwriters on a regular basis. Underwriters have indicated that there is a strong demand for Regent bonds to sell to their customers.

Regent Fisher stated that he had attended a lunch with Wells Fargo representatives recently. The chief economist for Wells Fargo indicated that there is \$3 trillion in cash uninvested in this country.

Mr. Fick said the large amount of uninvested funds was because of the decline in the stock market. Investors' best option will be bonds and Regent bonds are the most attractive bonds because they are double tax exempt.

MOTION:

Regent Arbisser moved to recommend that the Board establish a schedule for the issuance of bonds for calendar year 2002 as detailed. Regent Newlin seconded the motion. MOTION CARRIED UNANIMOUSLY.

PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$15,100,000 DORMITORY REVENUE BONDS, SERIES ISU 2002.

Vice President Madden stated that the proceeds of the bond sale would continue the funding for the Iowa State University residence system master plan. The bonds would be sold to construct a new community center for the Union Drive Neighborhood residential community.

MOTION: Regent Neil moved to recommend that the Board adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$15,100,000 Dormitory Revenue Bonds, Series I.S.U. 2002. Regent Arbisser seconded the motion. **MOTION CARRIED UNANIMOUSLY.**

ELECTRONIC BIDDING – BOARD OF REGENTS BONDS.

Mr. Fick stated that, included in the Board's meeting materials, was an electronic bidding analysis. He said electronic bidding provides an additional way that bids for bonds can be received by the issuer. Springsted has used electronic bidding for a number of its clients and has had positive results. There is no cost to the issuer to use electronic bidding. The electronic bid option would not be used to the exclusion of other methods for submitting a bid, but is an additional option available to an issuer to enhance the bidding process. He said Springsted recommends that the Board provide the electronic bid option to bidders using the Parity system (the most widely used and preferred system by underwriters), beginning with the January 2002 sale of Dormitory Revenue Bonds for Iowa State University. He has discussed this option with representatives of the universities and they are amenable to adding this option.

Mr. Fick provided several reasons for providing the electronic bid option. He said the electronic bid option supplements and expands the options available to issuers for accepting bids on bonds. It offers a number of advantages and is being used by more and more issuers to take advantage of the accuracy and speed provided by electronic communications. Electronic bidding has proven to be accurate and secure, and is backed by independent verification of the calculations the system makes.

Regent Becker asked if bidders are allowed to see what other bidders are bidding when utilizing this option. Mr. Fick responded that they would not. Bidders will see an initial list of who is bidding but will see no specifics of the bids.

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President Newlin asked for clarification regarding the following which was contained in the meeting materials: Three firms currently offer electronic bidding services: Bloomberg, Muni-Auction, and Parity. Issuers have the option of using one, two or all three firms to accept bids.

Mr. Fick stated that Springsted's experience is that the use of more than one firm does not result in any perceived advantage to an issuer and may result in confusion among bidders as they do not know which bidding service to use. Springsted believes that the use of one electronic bidding service should be offered as an option to bidders. He said Bloomberg's system is cumbersome for submitting bids. Muni-Auction has been unable to get a critical mass. The most widely used system by underwriters is the Parity system; the firm that produces the Parity system also markets a pricing system to the underwriting community under the brand name BidComp.

Vice President True asked if there is a business relationship between Parity and Springsted. Mr. Fick responded that there was no business relationship in terms of compensation. The cost of the system is free to the bidder and issuer. The system is paid for by the underwriters who subscribe to the BidComp system. The underwriters finance the system.

Mr. Haynie stated that Iowa law has been amended to allow use of electronic bidding. He stated that the Ahlers law firm had prepared a resolution to allow the use of electronic bidding which would preserve the integrity of the system. He said there must be a finding that the addition of electronic bidding will facilitate the bidding process for the sale of bonds. If the Board's bond advisor should encounter a bond sale for which they would not recommend electronic bidding, that would be brought to the attention of the Banking Committee. He said the electronic bidding option will facilitate the bidding process and may encourage underwriters to bid separately rather than as a group. Bidders will be provided with another option for providing bids in a timely manner.

MOTION:

Regent Newlin moved to (1) receive a report on electronic bidding for Board of Regents bonds and (2) recommend that the Board adopt A Resolution Approving Electronic Bidding Procedures. Regent Arbisser seconded the motion. **MOTION CARRIED UNANIMOUSLY.**

**INVESTMENT AND CASH MANAGEMENT REPORTS FOR THE QUARTER ENDING
SEPTEMBER 30, 2001.**

Director Elliott stated that, as of September 30, 2001, total Regent combined operating and endowment portfolios exceeded \$1.1 billion.

Mr. Brubaker reviewed with the Banking Committee members Wilshire's quarterly report. He distributed a sheet which provided an update of the returns through November 13, 2001. He anticipated that Seneca's returns in the fourth quarter would be very strong because the Nasdaq has significantly rebounded. When he last made a presentation to the Banking Committee, the markets were starting to stabilize. He referred to the information on fixed income performance and stated that every once in a blue moon something interesting takes place in the fixed income market. He said the yield curve moved from an inverted position a year ago to a very steep position at the end of the quarter in response to the federal interest rate cuts. On October 31, the federal government reported that it would discontinue issuance of 30-year bonds. He presented a graph which showed the yield spreads to treasuries are at historically-wide levels.

Regent Fisher asked if those are "junk" bonds. Mr. Brubaker said they are junk bonds. Junk bond defaults are 10 to 11 percent of outstanding issues.

Mr. Brubaker then turned to specific fund manager's results. Total fund results through September 30, 2001, were below U.S. equity benchmarks. He said Seneca's under-performance reflected that. With regard to net losses for the quarter, the Iowa State University endowment investment losses totaled \$9.3 million while University of Iowa endowment losses totaled \$10.4 million. He estimated that the funds were up 5 to 5-1/2 percent for the quarter. Long-term results have been quite good.

President Newlin stated that the pages on "total fund results" were laid out very well for ease of comprehension.

Mr. Brubaker stated that the University of Iowa quasi-endowment was up 2.8 percent. He then referred to a sheet entitled, "Domestic Equity Review – Seneca Capital Management". He said he mentioned earlier in the presentation that Seneca had under-performed, and by a pretty wide margin, year to date. This page showed that Seneca was 7 percent behind the index but the longer-term numbers were quite good. The Banking Committee should expect Seneca to beat the benchmark by a wide margin in up markets and to under-perform in down markets. He was still confident in the firm.

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With regard to international equities, Mr. Brubaker stated that some concern had been expressed in the past. He referred to a sheet that showed that the Board's international equities manager, Sanford Bernstein, was down only 16.1 percent and the benchmark (EAFE) was down 26.6 percent year to date. In the more recent period, Sanford Bernstein's out-performance of the benchmark has been a plus.

Mr. Brubaker next addressed the performance of Invesco, which is a balanced manager. Invesco actively manages U.S. equities. Over a one-year period, U.S. equities were about 12 percentage points ahead of the S&P 500. He stated that Invesco provides protection in down markets which it did very well over the last year. With regard to the fixed income component of the portfolio, he said Invesco's performance looks much like the benchmark index over time. This was one reason why Wilshire recommended hiring an additional fixed income manager.

Regent Fisher thanked Mr. Brubaker for the report.

ACTION: Regent Fisher stated the Banking Committee received the report, by general consent.

SELECTION OF MASTER LEASE PROVIDER.

Director Elliott stated that, last month, it was reported to the Banking Committee that a screening committee comprised of representatives of the universities, Board Office, Regent bond counsel, and Regent financial advisor reviewed proposals and determined that Wells Fargo submitted the most financially competitive, responsive master lease proposal. Further discussions were held to clarify some of the items in Wells Fargo's response and to discuss terms of a proposed contract. She asked that Mr. Fick provide an update of the activities that have taken place since last month.

Mr. Fick stated that the Board Office and he had been working with Wells Fargo since last month's meeting. A proposed agreement was circulated to the Regent institutions for concurrence and then to Wells Fargo for concurrence and final negotiations.

Director Elliott stated that Wells Fargo agreed to finance master leases up to an outstanding principal of \$20 million.

Regent Fisher noted that the master lease is really a line of credit.

MOTION: Regent Newlin moved to approve the selection of Wells Fargo Brokerage Services, LLC for the financing for the Regents master lease program

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and authorize the Executive Director to enter into a contract with Wells Fargo within the parameters delineated. Regent Neil seconded the motion.
MOTION CARRIED UNANIMOUSLY.

SELECTION OF INVESTMENT ADVISOR.

Regent Fisher stated that a committee composed of Banking Committee, institutional and Board Office representatives met the previous week and interviewed three investment advisor firms. He said it was the unanimous consensus of the committee to retain Wilshire Associates as investment advisor, with Mark Brubaker as representative. Wilshire Associates has performed well and also made the best presentation. Terms of the five-year commitment have been agreed upon. He said the Banking Committee looked forward to the continued relationship.

MOTION:

Regent Newlin moved to (1) recommend the Board approve the selection of Wilshire Associates as the Board's investment advisor and (2) recommend the Board authorize the Executive Director to execute the contract on behalf of the Board. Regent Neil seconded the motion.
MOTION CARRIED UNANIMOUSLY.

Mr. Brubaker thanked the Banking Committee members. He stated that, for him personally, it has been a great year. He believes it has been a successful relationship all the way around.

EMPLOYEE COMPENSATION ENDOWMENT.

Director Wright stated that Principal Mutual Holding Company has received authorization from the state to demutualize. All policy holders will receive proceeds of the demutualization. The Regent universities have held insurance policies for many years with companies which are a part of Principal. The three Regent universities will receive significant assets under the demutualization.

Director Wright stated that outside legal counsel and Deputy Attorney General Allen concur in the opinion that, while assets received by a public sector institutional policyholder are not covered by the federal Employee Retirement Income Security Act (ERISA), it is likely that a court would follow ERISA requirements if use of the assets were to be litigated. ERISA requires that plan assets attributable to employee contributions must be used for plan purposes or purposes which benefit the employees.

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Assets attributable to employer contributions must be used to support employer costs of funding and administering benefits offered to employees. Because the demutualization has been anticipated for several months, University representatives have been developing plans for the proceeds.

Regent Arbisser asked how much money was involved for the Regent universities. Director Wright responded that there would be almost \$100 million to the universities, approximately as follows: \$9-10 million to the University of Northern Iowa, \$30-40 million to Iowa State University, and \$60 million to the University of Iowa.

Regent Neil asked if there would be a split of the employee's share and the employer's share. Director Wright responded affirmatively, noting that the portions had been identified by each university.

Vice President True stated that the percentage at the University of Iowa was approximately 85 percent employer and 15 percent employee, in proportion to the premium amounts paid by each.

Vice President Madden said the allocation was approximately the same at Iowa State University. He noted that Iowa State University has been a customer of Principal for nearly 50 years.

Regent Fisher asked if the employer cost can be used to pay premium costs. Vice President Madden responded that the proceeds can be used to meet increased premium costs. He said the Board members would be presented with those specifics during the budget process.

Vice President Dell stated that the allocation was different at the University of Northern Iowa. One hundred percent is the employer portion because employees have not contributed to the cost of the policies.

Vice President Madden said the understanding was that Principal intends to distribute the proceeds before the end of the calendar year.

Regent Fisher asked how the funds will be managed. Vice President True said an endowment will be created and it will be treated like other endowments. The endowments are to be managed pursuant to Board and institutional guidelines and policies for investment and expenditure of endowment funds. University officials plan to work with Wilshire Associates and Board Office representatives to make judgments about the best transition of the funds into a normal endowment process.

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Regent Fisher asked if the proceeds will be in a separate endowment fund. Vice President Madden said the funds would not be in a separate fund; they will be part of the endowment base and will be tracked internally.

Regent Fisher said it would be important to include the information on the endowment in the investment reports to the Banking Committee.

Vice President True said the funds would be pooled and invested with the rest of the endowment funds.

Regent Fisher asked that the funds be reported separately.

President Newlin asked if Deputy Attorney General Gordon Allen felt that the resolution would minimize the potential of lawsuits. Director Wright responded affirmatively.

Regent Neil asked if the intent of the institutions would be to use the income of the endowment to reduce the cost of the benefits. Director Wright said that was his understanding.

MOTION: Regent Newlin moved to recommend that the Board establish at each Regent university receiving proceeds from the demutualization of Principal Mutual Holding Company (Principal), an endowment pursuant to the resolution, as presented, for the benefit of employees and the institution as permitted by law. Regent Becker seconded the motion. **MOTION CARRIED UNANIMOUSLY.**

MODIFICATION OF BANKING RELATIONSHIPS.

Associate Director Hendrickson presented highlights of the requested modifications, as follows: University of Iowa and Iowa State University officials requested that the maximum depository balance at Wells Fargo for each university be increased from \$50,000,000 to \$75,000,000 due to the recent disruption in the financial markets that negatively impacted fund liquidity. Iowa School for the Deaf uses Iowa State University for its investments and therefore requested an update changing Bank of America to Wells Fargo Bank – Des Moines to reflect the appropriate investment paying agent.

Regent Arbisser said he presumed that fairly significant funds of the universities were on deposit in the banks. He asked if the universities or the Board of Regents have

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representation on some of the banks' boards. President Newlin stated that President Geoffroy is on the board of Banker's Trust and President Coleman is on the board of Wells Fargo. He noted that the presidents' board memberships have nothing to do with the universities' money invested in the financial institutions. The presidents' memberships are totally independent.

MOTION: Regent Becker moved to recommend the Board approve the list of financial institutions, subject to the limitations specified as to purpose and maximum amount, as detailed. Regent Newlin seconded the motion. **MOTION CARRIED UNANIMOUSLY.**

EXTERNAL AUDIT REPORT – FIELDHOUSE REVENUE BOND FUNDS (UNI).

Operations Auditor McKenna stated that the audit report was basically a "clean" audit. The audit report indicated that the financial statements of the fieldhouse revenue bond funds were presented fairly in all material respects. No significant audit adjustments were reported.

ACTION: Regent Fisher stated the Banking Committee received the Field House Revenue Bond Funds audit for the University of Northern Iowa for the fiscal year ended June 30, 2001, by general consent.

STATUS OF INTERNAL AUDITS REPORT.

Director Elliott stated that one follow-up report was received from the University of Iowa and the audit was subsequently closed. She noted that the report on internal audit was only one page in length.

Regent Fisher stated that, by the time the Banking Committee meets again, many of the internal audits should be closed.

ACTION: Regent Fisher stated the Banking Committee, by general consent, received the report on the status of internal audit follow-up.

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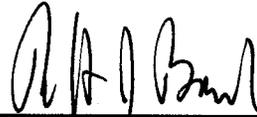
ADJOURNMENT.

The meeting of the Regents Banking Committee adjourned at 11:40 a.m. on
November 14, 2001.



Pamela M. Elliott
Director, Business and Finance

bb/f.winword/1101bank



Robert J. Barak
Interim Executive Director