

BOARD OF REGENTS
BANKING COMMITTEE

December 13, 2000

The Banking Committee of the Board of Regents met on Wednesday, December 13, 2000, at the West Des Moines Marriott Hotel, West Des Moines, Iowa.

Those present were:

Banking Committee members: Regents David Fisher (chair), Ellengray Kennedy (arrived at 1:10 p.m.), Roger Lande, David Neil (arrived at 1:10 p.m.) and Owen Newlin.

Others in attendance were:

Institutional representatives: Mary Sue Coleman, Douglas True, Carol Senneff, Richard Seagrave, Warren Madden, Sheryl Rippke, Robert Koob, Eunice Dell, Gary Shontz, Jim Heuer, Dennis Thurman;

Barry Fick, Springsted, Inc.;

Ken Haynie and Ed Bittle, Ahlers law firm;

Mark Freeburg, Wilshire Associates;

Board Office: Frank Stork, Pamela Elliott, Joan Racki, Deb Hendrickson, Andrea Anania and Barbara Briggie.

Chair Fisher called the meeting to order at 1:07 p.m.

APPROVE MINUTES OF THE NOVEMBER 2000 BANKING COMMITTEE MEETING.

The Board Office recommended the Banking Committee approve the minutes, as written.

Chair Fisher asked for additions or corrections to the minutes.

MOTION: Regent Lande moved to approve the minutes of the November 15, 2000, Banking Committee meeting, as written. Regent Newlin seconded the motion. MOTION CARRIED UNANIMOUSLY.

PRELIMINARY RESOLUTION FOR SALE OF UP TO \$21.9 MILLION DORMITORY REVENUE BONDS, ISU SERIES 2000A. The Board Office recommended the Banking Committee recommend that the Board, subject to approval of the project description, budget and design development drawings for Union Drive Phase 1, adopt A Resolution

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authorizing the Executive Director to fix the date or dates for the sale of up to \$21,900,000 Dormitory Revenue Bonds, Series I.S.U. 2001A.

Last month, the Banking Committee and Board approved a bond issuance schedule for calendar year 2001 which included the sale of Dormitory Revenue Bonds in January 2001 for a portion of the cost of Phase 1 of the Union Drive Neighborhood at Iowa State University. It was noted at that time that approval of the schedule did not indicate that the Board would approve the projects and the bond sale amounts.

Board action on a number of items related to Phase 1 of the Union Drive Neighborhood was deferred from the November meeting until the December meeting. The Board will not be asked to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$21,900,000 Dormitory Revenue Bonds, Series I.S.U. 2001A until it has acted on the University's requests regarding the Union Drive Neighborhood.

If the Board approves the Phase 1 Union Drive neighborhood project, the bonds would be sold to construct and equip a residence hall (Suite Building 1) and related facilities (including infrastructure) at Iowa State University and make other necessary improvements to the residence system. The bonds would be issued for a period of 28 years, with debt service of approximately \$1,636,000 annually to be paid from net rents, profits and income from the operation of the residence system. An additional bond issue scheduled for May 2001 would be needed to finance construction of the Community Center. The University's residence system is a self-supporting operation and receives no state appropriations.

Vice President Madden stated that this bond issuance would finance part of the Union Drive project. University officials would be making a presentation to the Board at this month's Board meeting. He said this matter was presented to the Banking Committee as part of the process for approval of the financing, pending Board authorization of the project. University officials previously reported that this project would be completed in phases. The first phase involves construction of the first suite building on campus, the Community Center and associated infrastructure, and demolition of Helser Hall. He noted that conversations with two rating agencies indicated that the projects were reasonable. Moody's representatives indicated an interest in reviewing the University's overall bond rating status for possible upgrading. He stated that there has been due diligence at the campus level.

Mr. Haynie stated that if the bonds are sold in January, the Board members would be presented at the time of the sale with a certificate outlining the future net revenues of the facilities to be constructed from proceeds of the bonds.

Vice President Madden noted that the State Auditor would be providing the certification regarding financing.

Chair Fisher asked Mr. Haynie if he was comfortable that the revenue stream and the cash flow were adequate to satisfy the bonds. Mr. Haynie responded that he was never "comfortable"; he always worries about the worst case situation. He said there is a change in student demand for housing. There was no question that Iowa State University's residence system has to be modernized and brought up to date. He said the assumption that the Hawthorn Court second phase would receive the same customer demand as the first phase was an assumption. The fallback position would be to slow down on the second and third suite units of the Union Drive Neighborhood project until the Hawthorn Court housing is at a good capacity.

Chair Fisher asked if the first phase of this project involves all of the initial infrastructure and tearing down of Helser Hall. Vice President Madden said the north end of Helser Hall would come down in order to provide siting for the Community Center. The infrastructure would serve the new structures upon their completion and would provide upgraded and redundant service to Friley Hall. He noted that there would be no allocation of any portion of the cost to Friley Hall. He said the west-most end of Friley Hall would also come down. When University officials make the presentation during the Board meeting regarding this project, the Board members would be provided with a graphic exhibit of the site.

Chair Fisher asked if the bonds would pay for one dormitory building, the infrastructure and the tearing down of the north end of Helser Hall, but not the food service. Vice President Madden responded affirmatively. He said the timing was designed to meet the construction schedule and the occupancy schedule.

Chair Fisher noted that the meeting materials indicated that the Board would not be asked to adopt a resolution authorizing the Executive Director to fix the date for this sale until it has acted on the University's request regarding the Union Drive Neighborhood. He then noted that the bonds were scheduled for a 28-year payback which he said seemed longer than other bond sales.

Mr. Haynie said it was really a 25-year bond issuance. The principal repayments do not begin until the facility is constructed, in use and receiving revenues.

President Seagrave stated that University officials were aware that some members of the Board had concerns about this project. Since the January Board of Regents meeting is a telephonic meeting, University officials requested to present the project this month.

Regent Lande asked for the current occupancy of Friley Hall. Vice President Madden responded that Friley Hall was fundamentally 100 percent occupied at the beginning of the fall term. There will be a slight decline in occupancy in all the dormitories in the spring although the new Hawthorn Court project will be full in the spring semester. He noted that the second 1,000 beds in Hawthorn Court would not be available for occupancy until next fall. He said the Hawthorn Court facility was encouraging students who had previously moved out of the residence halls to move back to campus. He believes the first suite building of the Union Drive Neighborhood will have the same high occupancy rate.

MOTION:

Regent Lande moved to recommend that the Board, subject to approval of the project description, budget and design development drawings for Union Drive Phase 1, adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$21,900,000 Dormitory Revenue Bonds, Series I.S.U. 2001A. Regent Newlin seconded the motion.

Regent Neil stated that he was very concerned whether this was the right move at this time when the outcome of the Hawthorn Court project was not yet known. He said his concerns about removing some of the costs in this project had fallen on "deaf ears". University officials indicate there is no way to reduce the cost unless the structure of the buildings is radically changed. He did not support moving ahead in an expedited manner. The University does not need to build a "white elephant" that no one can afford. He said the Board members had just sat through a session on raising tuition in this state. While these are very nice facilities, is it something the Iowa students can afford? He stated that he was opposed to moving forward until there is a project design that fits the Iowa income scene.

Regent Kennedy asked what would be the ramification of postponing approval of this project. Chair Fisher said the University would lose a construction season. He asked when the facility was slated to be occupied.

Vice President Madden said the first suite building would be occupied in fall 2002. He said there would be increased costs if there were a delay. The delay would not alter significantly the revenue stream since University officials believe the revenue estimates are conservative. There is some urgency to get started on the Community Center, which is the food service facility, the second building to be constructed. The Friley Hall food facility and kitchen are on the "ragged edge" of continuing to function.

Chair Fisher stated that this was discussion that should take place at the Board meeting.

VOTE ON THE MOTION: Motion carried with Regent Neil voting "no".

BOND ISSUANCE COSTS. The Board Office recommended the Banking Committee receive the report on the issuance costs related to:

\$10,000,000 Athletic Facilities Revenue Bonds, Series S.U.I. 2000; and

\$22,250,000 Series 2000 and \$5,750,000 Series 2000A University of Iowa Facilities Corporation Revenue Bonds (Medical Education and Biomedical Research Facility).

The Banking Committee has requested reports identifying the costs associated with each bond issuance. The last report provided to the Banking Committee in September 2000 included issuance costs for the University of Iowa Dormitory Revenue Bonds sold in April 2000 and the University of Northern Iowa Dormitory Revenue Bonds sold in May 2000. This month's report included the issuance costs for the University of Iowa Athletic Facilities Revenue Bonds and the two series of University of Iowa Facilities Corporation Revenue Bonds. These bonds were sold in September 2000.

Associate Director Racki stated that this was the last of the reports on bond issuance costs for calendar year 2000. She noted that the last time this report was presented to the Banking Committee, it was requested that the report include information on the costs of previous 2000 bond issues. She said that information was included in the report.

President Newlin said it would be helpful to see a two-year compilation of bond issuance costs. Associate Director Racki responded that the Board Office could provide that information. Chair Fisher asked that the two-year compilation be completed and presented at the next meeting of the Banking Committee.

Chair Fisher asked if the reason the cost estimates for the Athletic Facilities Revenue Bonds were a little low was because athletic bonds had not been sold since 1992. Mr. Fick said that was correct. There were templates in place with some of the other bond issuances; therefore, minimal updating had to be done. There were not templates in place for the athletic bonds.

Chair Fisher asked why the University of Iowa Facilities Corporation bonds were higher than estimated. Mr. Fick responded that the costs for the issuance of the bonds were

higher than anticipated because of additional work involved regarding bond insurance and items of clarification.

MOTION: Chair Fisher stated the Banking Committee received the report on the issuance costs, by general consent.

AUTHORIZE REQUESTS FOR PROPOSALS FOR THE BOARD'S FINANCIAL ADVISOR, BOND COUNSEL, AND ARBITRAGE REBATE CALCULATION SERVICES. The Board Office recommended the Banking Committee:

- (1) Authorize the following Requests for Proposals for distribution:
 - Financial Advisor
 - Bond Counsel
 - Arbitrage Rebate Calculation Services
- (2) Identify a selection committee.

Statutory provisions require the solicitation of bids for services related to issuance of bonds every five years. The current contract with the Board's bond counsel, Ahlers Law Firm, and the current contract with Springsted, Inc., the Board's financial advisor, both expire on August 31, 2001.

A separate Request for Proposal (RFP) was established for arbitrage rebate calculation services since not all bond counsel or financial advisor firms provide this service.

University representatives and Board Office staff reviewed the proposed RFPs. These RFPs will be sent to a list of candidate firms and any other firms the Banking Committee wishes to consider.

Representatives of the Board Office and universities will review the submissions received in response to each of the RFPs, and recommend three or four finalist firms to be interviewed by a selection committee comprised of representatives of the Banking Committee, the Board Office, and the universities.

The selection committee will present its recommendation for the Board's financial advisor, bond counsel, and arbitrage rebate calculation services at a future Banking Committee meeting.

Director Elliott stated that, by statute, the Board of Regents must go out for an RFP every five years for bond services. She referred the Banking Committee members to the

listings of candidates who would be sent the RFPs. She noted that the RFP for arbitrage rebate calculation services was new. The RFP documents had been reviewed by university officials.

Vice President True asked that the continuing disclosure information requirement be imbedded within the RFP document. Director Elliott said that had been done.

MOTION: Regent Neil moved to authorize the following requests for proposals for distribution: financial advisor, bond counsel and arbitrage rebate calculation services. Regent Lande seconded the motion. MOTION CARRIED UNANIMOUSLY.

Chair Fisher asked to discuss the identification of selection committees.

Director Elliott referred to the process in the past and stated that if the Banking Committee members want to participate in the selection and interview process, they may do so. Selection committee members from the institutions and Board Office would include University of Iowa Vice President True, Iowa State University Vice President Madden, University of Northern Iowa Controller Shontz, and Associate Director Racki from the Board Office.

Vice President Madden stated, having done this before, that the selection committee typically recommends a short list of firms to be interviewed by the Banking Committee with interviews scheduled at a mutually convenient time. If the Banking Committee members wish to review all of the material, they may do so.

Chair Fisher asked if the proposal was to narrow the candidates down to two or three firms to be interviewed by the Banking Committee. President Newlin said he thought the selection committee should narrow the candidate firms down to one.

Vice President Madden stated that the Banking Committee typically brings in two or three firms and commits one-half day to perform interviews.

Chair Fisher asked Regent Lande to serve on the bond counsel selection committee. He asked President Newlin to serve on the financial advisor selection committee. He asked Regent Neil to serve on the arbitrage rebate services selection committee.

Vice President True referred to the arbitrage rebate services and asked if it would be possible to combine those interviews at the same time as the financial advisor interviews.

MOTION: Regent Neil moved to approve the identification of selection committees. Regent Lande seconded the motion. MOTION CARRIED UNANIMOUSLY.

EXTENSION OF INVESTMENT ADVISOR CONTRACT. The Board Office recommended the Banking Committee recommend that the Board approve the extension of the investment advisor contract with Wilshire Associates for six months through December 31, 2001, at half of the current contract annual fee of \$75,000 and authorize the Executive Director to enter into the contract extension.

The Board of Regents employs an investment advisor and money managers to guide its policy of active investment management. Wilshire Associates has been the investment advisor to the Board and Regent institutions since May 1996, with Michael Palmer being the principal consultant. With the resignation of Michael Palmer from Wilshire Associates in October, Wilshire named Mark Brubaker as the principal representative to interact with the Board and its institutions.

Mr. Brubaker has been with Wilshire Associates since 1997. He earned a B.A. in Economics from Yale University and an M.S. in Industrial Administration with a concentration in finance from Carnegie Mellon University. He works out of Wilshire Associates' Pittsburgh office.

After discussions with university officials, the universities and staff requested an opportunity to work with Mr. Brubaker for more than a few months. The Board Office requested the Banking Committee to recommend that the Board extend the investment advisor contract for six months at half of the current contract annual fee, which is \$75,000.

Wilshire Associates has agreed to this six-month extension. The Board Office will work with Wilshire Associates and the Attorney General's Office to accomplish this extension, once approved.

Director Elliott stated that next June would be five years since Wilshire Associates became the Regents investment advisor. As discussed at the last Banking Committee meeting, Mike Palmer has left Wilshire and the new Wilshire representative to the Board of Regents is Mark Brubaker. The Board Office has contacted Wilshire Associates regarding extension of their contract, to which they agreed, at the same dollar amount for six additional months, through December 2001. The extension of the contract will provide more opportunity for the Board and institutions to work with Mr. Brubaker.

Regent Kennedy said she thought the contract extension was a good idea.

MOTION: Regent Kennedy moved to approve the extension of the investment advisor contract with Wilshire Associates for six months through December 31, 2001, at half of the current contract annual fee of \$75,000 and authorize the Executive Director to enter into the contract extension. Regent Lande seconded the motion. MOTION CARRIED UNANIMOUSLY.

Chair Fisher recognized President Coleman to make an introduction.

President Coleman introduced Carol Senneff, newly-appointed Director of Internal Audit at the University of Iowa. President Coleman discussed Ms. Senneff's background, noting that she was a native Iowan and was moving back to Iowa from San Diego.

Director Senneff stated that she has been in the university environment for the last eight days; it was sort of like the first day of school. She has met many wonderful people, has done a lot of reading and has much to learn. She hoped that the next time she met with the Banking Committee members, she would be more knowledgeable and conversant. She looked forward to working with the Banking Committee members and reviewing what the internal audit group can bring to the Board of Regents and to the University.

Chair Fisher welcomed Director Senneff and said the Banking Committee members looked forward to working with her. He said the fact that she was a former Iowan makes her appointment even more special.

INVESTMENT AND CASH MANAGEMENT REPORTS FOR THE QUARTER ENDING SEPTEMBER 30, 2000. The Board Office recommended the Banking Committee receive the investment and cash management reports for the quarter ended September 30, 2000.

The Regent institutions maintain two investment portfolios — operating and endowment/quasi-endowment. Both portfolios include restricted and unrestricted funds.

Institutional Investment Portfolios
Market Value (Thousands of Dollars)
As of September 30, 2000

<u>Operating</u>	<u>Endowment/ Quasi-Endowment</u>
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University of Iowa ¹	\$506,568	\$181,073 ²
Iowa State University	241,361	99,149 ³
University of Northern Iowa	66,040	-
Iowa School for the Deaf	2,356	-
Iowa Braille and Sight Saving School	<u>514</u>	<u>-</u>
Total	\$816,839	\$280,222

1 Includes UIHC.

2 Includes UNI.

3 Includes ISD and IBSSS.

As of September 30, 2000, total Regent combined operating and endowment portfolios exceeded \$1 billion for the third quarter in a row.

The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$816.8 million. The university operating investment portfolios performed in line with the comparable industry standards.

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment portfolio, which totals \$280.2 million. The combined investment manager returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios are 2.0 percent each for the quarter. The blended asset allocation benchmark posted returns of -0.3 percent for the quarter. Wilshire reported that all three endowment investment managers generally outperformed their respective benchmarks.

University internal auditors verified that investment purchases of the institutional portfolios, during the quarter ended September 30, 2000, and holdings were in compliance with respective Board and institutional investment policies.

Director Elliott stated that this was the third quarter in a row that the total Regent combined operating and endowment portfolios exceeded \$1 billion. She said the fund managers performed in line with industry standards. She introduced Mark Freeburg, Wilshire Associates.

Mr. Freeburg stated that Mr. Brubaker was unable to attend this meeting. He began his presentation with a broad capital market overview. He said this was the first time since 1990 that the S&P 500 had posted negative returns through the third quarter. In December, the S&P had begun to show a more positive outlook. The best-performing instruments for the quarter have been fixed assets which are driven mostly by non-treasury instruments. Non-U.S. equities show an amplified reflection of U.S. equities. He said the price of the dollar has been appreciating and noted that oil is priced in dollars. The EAFE index for the quarter was down 8.1 percent and, through December

8, EAFE was down 15 percent. Emerging markets are down close to 20 percent for the year to date.

Mr. Freeburg next discussed fund performance. He stated that although the portfolios of the University of Iowa and Iowa State University that are managed by Invesco are similarly constructed, the difference in the returns is largely a function of trading. Wilshire Associates representatives will be meeting with Invesco representatives to discuss this matter and to have the portfolios be more similar going forward. He said Seneca had a tremendous quarter. He stated that Seneca exceeded the mid-cap growth index and significantly out-performed the benchmark due to stock selection. He said Sanford Bernstein, the international equities funds manager, beat the benchmark, ranking in the 37th percentile in the universe of international fund managers.

ACTION: Chair Fisher stated the Banking Committee received the investment and cash management reports for the quarter ended September 30, 2000, by general consent.

STATE AUDIT REPORT - SELECTED DEPARTMENTS AT IOWA STATE UNIVERSITY. The Board Office recommended the Banking Committee receive the State Auditor's report of eight departments within eight colleges/offices at Iowa State University.

During FY 1995, the State Auditor's Office began reviewing transactions at Iowa State University to determine departmental compliance with certain established University guidelines. This is the sixth report issued by the State Auditor regarding departmental compliance at Iowa State University. It summarizes the procedures performed on transactions for the period July 1, 1998, through December 31, 1999.

The report is not intended to constitute an audit of the financial statements. Instead, the review is conducted to study and evaluate departmental controls and/or compliance with University guidelines. This report is performed in addition to the comprehensive annual audits conducted by the State Auditor.

This report identifies a standard set of compliance areas reviewed by the auditors and details auditors' comments and recommendations for the specific departments. Follow-up is dependent on the State Auditor's Office.

Vice President Madden said University officials appreciated the suggestions of the State Auditor. He noted that the State Auditor's staff are on the campus continually. State Auditor Johnson said he has lost quite a few staff so the ability of his office to do some of its auditing activities may be impacted.

ACTION: Chair Fisher stated the Banking Committee received the State Auditor's report of eight departments within eight colleges/offices at Iowa State University, by general consent.

INTERNAL AUDIT STATUS REPORT. The Board Office recommended the Banking Committee receive the report on the status of internal audit follow-up.

Completed institutional internal audit reports were presented to the Banking Committee as required by Board policy. The Board Office monitors the progress of the institutions' follow-up. When corrective action has been satisfactorily completed, the audits are closed. Two follow-up internal audit reports were presented.

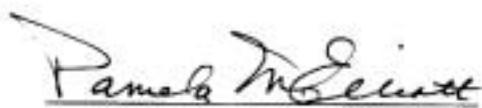
The Status of Internal Audit Follow-Up identified 30 internal audit reports that have previously been presented to the Banking Committee, of which 28 still require follow-up. Internal auditors at the University of Iowa Hospitals and Clinics and Iowa State University each closed one audit.

Director Elliott reviewed with the Banking Committee members the information that was provided in the meeting materials.

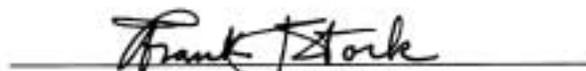
ACTION: Chair Fisher stated the Banking Committee received the report on the status of internal audit follow-up, by general consent.

ADJOURNMENT.

The meeting of the Regents Banking Committee adjourned at 2:03 p.m. on December 13, 2000.



Pamela M. Elliott



Frank J. Stork
Executive Director

bb/f.winword/1200bank