MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Reimbursement Resolution, West Campus Chilled Water Plant (SUI)

Date: December 4, 2003

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 6) declaring an official intent under Treasury Regulation 1.150-2 to issue debt to reimburse the University of Iowa Utility System for certain original expenditures paid in connection with specified projects.

Executive Summary:

The University of Iowa requests adoption of a resolution which will permit the University’s Utility System to be reimbursed from a future Utility System bond issue for expenditures associated with the West Campus Chilled Water Plant project.

The Board approved the project description and total budget ($39,400,000) for the West Campus Chilled Water Plant project at its October 2003 meeting.

The calendar year 2004 bond issuance schedule, approved by the Board in November 2003, includes a Utility System Revenue Bond sale for the project in March 2004.

The reimbursement resolution is being submitted at this time to ensure maximum reimbursement capability under regulations of the federal Internal Revenue Code. Pursuant to these regulations, project payments made not more than 60 days prior to adoption of the resolution are eligible for reimbursement from future bond issues.

Background:

Treasury Regulations

United States Department of Treasury Regulation 1.150-2 provides the rules for the reimbursement from future bond proceeds of expenditures originally paid from sources other than bond proceeds. When the bonds are sold, a portion of the bond issue (reimbursement bond) is allocated to reimburse the original expenditure that was paid before the bond issue date.
Project Background  The West Campus Chilled Water Plant provides chilled water service for the academic and medical facilities on the west campus; the plant has a current capacity of 16,000 tons.

The plant was constructed in 1970 and the equipment was installed in phases, with the last 3,000 tons of cooling capacity installed in 1988.

The continuing expansion of the west campus and the growth of the Arts Campus require an increase in the capacity of the West Campus Chilled Water Plant.

Project Scope  The project, as approved by the Board in October 2003, would construct an addition to the West Campus Chilled Water Plant to increase the plant’s chilled water capacity by 12,000 tons and would provide for future expansion by an additional 4,000 tons; this amount represents the University’s current estimate of future west campus and Arts Campus cooling requirements.

Analysis:

Bond Issuance Schedule  The calendar year 2004 bond issuance schedule, approved by the Board in November 2003, includes the sale in March 2004 of approximately $25.0 million of University of Iowa Utility System Revenue Bonds to provide partial financing for the West Campus Chilled Water Plant project.

Financing until Bonds Issued  Until the bonds are issued, financing for the project would be provided by the Utility System Improvement and Extension Fund.

Treasury Regulations  Treasury regulations require that project costs must be reimbursed from the bond proceeds not later than 18 months after the capital expenditures are paid or 18 months after the property is placed in service, whichever is later.

Resolution  A copy of the reimbursement resolution prepared by the Ahlers law firm and reviewed by Springsted, Inc. is available from the Board Office.