

MEMORANDUM

To Banking Committee

From: Board Office

Subject: Preliminary Resolution for the Sale of up to \$25,000,000 Utility System Revenue Bonds, Series S.U.I. 2004

Date: February 9, 2004

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 11) authorizing the Executive Director to fix the date or dates for the sale of up to \$25,000,000 Utility System Revenue Bonds (The State University of Iowa), Series S.U.I. 2004.

Executive Summary:

The Banking Committee is requested to recommend that the Board adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$25,000,000 Utility System Revenue Bonds, Series S.U.I. 2004.

Proceeds from the sale of the bonds would be used to fund the Upgrade of the Health Sciences Campus - Purified Water System project and a portion of the cost of the West Campus Chilled Water Plant Development / Expansion project.

The calendar year 2004 bond issuance schedule approved by the Board in November 2003 included a University of Iowa Utility System Revenue Bond sale for the projects in March 2004.

Principal on the bonds would be repaid over a period of 20 years, with debt service of approximately \$1,850,000 annually to be paid from utility system charges and the proceeds of any utility system student fees which the Board may establish in the future.

The University's Utility System is a self-supporting operation.

Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for individuals who are Iowa residents and purchase the bonds.

Background:

Statutory Provisions

Under the provisions of Iowa Code Chapter 262, the Board is authorized to construct, equip, maintain and operate self-liquidating and revenue producing facilities at the universities; the Board is also authorized to borrow money to construct or improve these facilities.

The sources of repayment are the income and revenues to be derived from the operation or use of the facility and from any fees or charges implemented by the Board to students for whom the facilities are made available.

Upgrade of Purified Water System Project

In April 2003, the Board approved the project description and budget (\$2,348,000) for the Health Sciences Campus - Upgrade of the Purified Water System project, which will upgrade the deionized feed water system in the Medical Research Center and the water purification system that serves a portion of the Pharmacy Building.

West Campus Chilled Water Plant

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.

In October 2003, the Board approved the project description and budget (\$39,400,000) for the West Campus Chilled Water Plant Development / Expansion project, which will construct an addition to the existing plant to increase its chilled water capacity by 12,000 tons (with future expansion by an additional 4,000 tons) to serve the expanding needs of the West Campus and Arts Campus.

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.

Reimbursement Resolutions

In May 2003, the Board adopted a reimbursement resolution, indicating its future intent to issue bonds for the Upgrade of the Purified Water System project and in December 2003, the Board adopted a reimbursement resolution indicating its future intent to issue bonds for the West Campus Chilled Water Plant Development / Expansion project.

Electronic Bids

The Board, at its November 2001 meeting, adopted a resolution approving electronic bidding procedures.

Analysis:

Issue Size	<p>The size of the bond issue is estimated to total \$25,000,000 including:</p> <ul style="list-style-type: none">• project costs (estimated at \$22,720,000);• debt service reserve (estimated at \$1,850,100);• bond discount (estimated at \$350,000); and• issuance costs (estimated at \$79,900).
Outstanding Bonds	<p>The outstanding principal of the Utility System existing bonds, as of February 1, 2004, is \$55,950,000; the last maturity is 2022.</p>
Debt Service Payments	<p>Annual debt service payments would be approximately \$1,850,000; there would be 20 principal payments.</p>
Sources of Repayment	<p>The new bonds would be issued on a parity with the outstanding bonds, with the source of repayment continuing to be utility system charges.</p> <p>As a credit enhancement, the bond covenants for the existing bonds include a provision for the Board to charge a Utility Student Fee to remedy any deficiencies in the net income of the enterprise. Since the new bonds are being issued on a parity with the existing bonds, the provision for a “backup student fee” would also apply to the new bonds.</p> <p>Since Utility System bonds were first issued in 1985, there has not been a need to charge the student fee. There is no indication that the fee would need to be charged to support the debt service on the bonds to be issued since it is anticipated that utility system charges should be more than sufficient to meet the financial requirements of the utility enterprise.</p>
Resolution	<p>The resolution authorizing the Executive Director to fix the date or dates for the sale of the bonds, which was prepared by Ahlers Law Firm and reviewed by Springsted, Inc., is available from the Board Office.</p> <p>The resolution includes a provision permitting the Board to receive bids by means of both sealed and electronic communication; the receipt by electronic communication is consistent with the resolution adopted by the Board in November 2001 approving electronic bidding procedures.</p>
Sale Date	<p>The bond sale and award would be scheduled for the March 2004 Board meeting.</p>