

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Resolution Authorizing the Redemption of Outstanding Iowa State University Dormitory System Bonds
Date: February 9, 2004

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 11) authorizing the redemption of outstanding Dormitory Revenue Bonds (Iowa State University of Science and Technology), Series 1964A, 1965A, 1966A, 1967A, and 1967G and directing publication of notice.

Executive Summary:

The Banking Committee is requested to recommend to the Board that it adopt a resolution authorizing the redemption of outstanding Dormitory Revenue Bonds I.S.U. Series 1964A, Series 1965A, Series 1966A, Series 1967A, and Series 1967G, and directing publication of the notice of redemption.

The outstanding principal of these bond series, as of February 1, 2004, is \$5,210,000; interest (coupon) rates on the bonds range from 3.0% to 4.3%.

These bonds mature from July 1, 2004 to July 1, 2008 and can only be called on an interest payment date.

Through establishment of an escrow agreement with Wells Fargo Bank, authorization for which is included in the resolution, and a deposit of funds into an escrow account with the Bank, the bonds would be defeased, effectively removing them from the listing of outstanding debt of the residence system. All outstanding bonds of the bond series listed above would be called on July 1, 2004.

The escrow account would be funded through FY 2004 funds budgeted for debt service and voluntary reserve funds. After the call date, the reserve fund can be reduced since the maximum annual debt service for the Residence System is being reduced. The reserve funds no longer needed can then be deposited into the voluntary reserve fund.

Establishment of the escrow account no later than May 31, 2004, and the early retirement of the referenced outstanding bonds will ensure that the critical bond coverage ratio of 135% (net revenues compared to debt service payment), stipulated in the bond covenants, is met.

Background:

Request The request to redeem the outstanding 1964 - 1967 dormitory bond issues has been developed in consultation with the Board of Regents' financial advisor, Springsted, and bond counsel, Ahlers Law Firm.

Bond Covenants The bond covenants for Iowa State University Dormitory bonds require the Board to adopt rules and regulations for occupancy, including parietal rules, to assure maximum occupancy of the Dormitory (Residence) System buildings.

The Board must set, on an annual basis, the room and board rates; these rates must provide revenues sufficient to pay the reasonable costs of operating and maintaining the System.

Net revenues of the System must equal or exceed 135% of the annual principal and interest requirements on the outstanding bonds.

Bonds to be Redeemed The bonds which would be redeemed are summarized below:

<u>Series I.S.U.</u>	<u>Issuance Date</u>	<u>Issuance Amount</u>	<u>Interest (Coupon) Rate</u>	<u>Maturity Date</u>	<u>Outstanding Principal as of 2/1/2004</u>
1964A	7/1/1964	\$15,000,000	3.0%	7/1/2004	\$ 750,000
1965A	4/1/1965	1,600,000	3.6%	7/1/2005	450,000
1966A	6/1/1966	2,200,000	3.9%	7/1/2005	245,000
1967A	7/1/1967	8,190,000	4.3%	7/1/2008	3,265,000
1967G	7/1/1967	<u>3,000,000</u>	3.0%	7/1/2007	<u>500,000</u>
Totals		\$29,990,000			\$5,210,000

Defeasance The above-referenced bonds can only be called on an interest payment date, every July 1 or January 1.

Defeasance of bonds provides a mechanism for effectively removing the bonds from the institution's books. Through this mechanism, sufficient funds are set aside through deposit into an escrow account to pay off the bonds on the first call date.

Analysis:

Timeline To redeem the bonds on July 1, 2004, bondholders must be notified no later than June 1, 2004 (30 days prior to the redemption date). The University must deposit the required amount of funds into the escrow account prior to the final date that notice to bondholders of the early redemption is to be made.

Escrow Deposit A deposit of \$5,311,798 prior to May 31, 2004, into the escrow account at Wells Fargo would be sufficient to defease in full the July 1, 2004 principal and interest payments and all remaining outstanding principal of the outstanding 1964 – 1967 bonds.

The projected sources of funds to be deposited into the escrow account, are summarized below:

<u>Source of Funds</u>	<u>Amount</u>
FY 2004 Scheduled Debt Service Payment	\$1,351,798
Voluntary Reserve Funds	<u>3,960,000</u>
Total Deposit to Escrow Fund	\$5,311,798

Reasons for Bond Retirement The University recommends that the 1964 - 1967 dormitory bond issues be redeemed prior to their maturity dates for the following reasons:

Interest Earnings vs. Bond Coupon Rates Interest earnings on Department of Residence funds are expected to be below 3% in FY 2004. The University projects that the rate of interest earned on residence system balances will be less than the interest (coupon) rates paid on the outstanding bonds proposed to be redeemed (last maturity of July 1, 2008).

According to the University, the payment of the outstanding bond principal on July 1, 2004 yields an internal rate of return of 4.16%, which exceeds the University's investment returns on its operating portfolio.

Sufficient Available Resources The Department of Residence has sufficient voluntary reserves (fund balance of \$18.2 million at June 30, 2003) to defease the bonds on May 31, 2004, and fund existing commitments for authorized Master Plan capital projects.

Appendix A includes the University's status report on Residence System Master Plan projects; additional information on the projects will be included as part of the Residence System report to be presented to the Board at its March meeting.

FY 2004 Budget The Department of Residence currently projects revenues of approximately \$5.2 million lower than budgeted revenues for FY 2004. (See Table 2)

In response and at the direction of the University, the Department has materially reduced its FY 2004 operating expenses (approximately \$3.7 million).

However, based upon the current forecast, it is estimated that the bond coverage ratio would only be 127%, lower than the budgeted amount of 139% and below the bond covenant required coverage ratio of 135%. (See Table 2)

Bond Coverage Ratio With the proposed debt retirement, the coverage ratio would return to 144%, providing sufficient margin to ensure that the critical bond coverage ratio of 135% will be met in FY 2004.

If the bonds are not redeemed, the Department of Residence will be required to make further operating reductions which could potentially further reduce services and occupancy.

The University believes that early retirement of the debt will permit the Residence System to develop the financial structure necessary for the Department to serve its student customers at the lowest possible cost, to satisfy critical bond measures, and to safeguard the assets of the system.

Residence Rate
Increase

The Department of Residence proposed 2004 – 2005 rate increases and five-year plan will be submitted for initial consideration at the March Board meeting. The University has indicated that it will propose rate increases that will be competitive, and will fund necessary cost increases and projected capital projects.

Table 1
Iowa State University
Department of Residence

CASH REQUIRED FOR EARLY RETIREMENT OF DEBT

	1964A	1965A	1966A	1967A	1967G	Total
Bond Issue						
Coupon Rate	3%	3.5-3.6%	3.90%	4.30%	3%	
Payments as currently scheduled:						
7/1/2004 principal	750,000	50,000	75,000	250,000	125,000	1,250,000
7/1/2004 interest	11,250	8,075	4,776	70,198	7,500	101,798
Cash from Operations (FY04 Budget)	761,250	58,075	79,776	320,198	132,500	1,351,798
FY05 principal		400,000	170,000	500,000	125,000	1,195,000
FY06 principal				775,000	125,000	900,000
FY07 principal				800,000	125,000	925,000
FY08 principal				940,000		940,000
Total cost to retire bonds:						
Principal		400,000	170,000	3,015,000	375,000	3,960,000
Total cost to retire bonds	0	400,000	170,000	3,015,000	375,000	3,960,000

Total Escrow Cash Deposit

\$5,311,798

Rate of	Cash Flows				
Return	FY04	FY05	FY06	FY07	FY08
4.16%	-3,960,000	1,356,925	1,015,645	1,003,570	980,420

Table 2
Iowa State University
Residence System Budget 2003-2004
Component Operations subject to Bond Requirements

	Final Budget 2003-2004	Forecast 2003-2004	Variance	Notes
REVENUE AND EXPENDITURE DETAIL				
Revenues				
Contracts	\$ 47,646,907	\$ 43,839,358	\$ (3,807,549)	1
Interest	1,977,372	899,970	(1,077,402)	2
Other Income	6,599,055	6,317,501	(281,554)	3
Total	\$ 56,223,335	\$ 51,056,830	\$ (5,166,505)	
Expenditures				
Salaries	\$ 21,337,175	\$ 19,564,051	\$ (1,773,124)	4
Cost of Food	5,435,196	4,915,115	(520,081)	5
Other Operating	7,895,846	6,540,274	(1,355,572)	4
Utilities	4,875,549	4,851,752	(23,797)	4
Repairs	1,329,714	1,260,453	(69,261)	4
Total	\$ 40,873,480	\$ 37,131,646	\$ (3,741,834)	
Net Available Revenue	\$ 15,349,855	\$ 13,925,184	\$ (1,424,670)	
Debt Service (due July 1)	\$ 11,014,567	\$ 11,000,838		
Bond Debt Service Ratio Calculation	1.39	1.27		
IF 1964 - 1967 DEBT SERIES RETIRED IN FY 2004				
Debt Service (due July 1)		\$ 9,649,040		
Bond Debt Service Ratio Calculation		1.44		

NOTES:

1. Compared to last year university enrollment decreases, departmental occupancy decreases relative to lower enrollment, and intersemester attrition higher than last three years.
2. Interest rate on operating, reserve, and construction funds decreases to approx. 1/2 percent.
3. Dining retail income below budget.
4. Departmental budget response (cost savings initiative) to depressed revenue streams.
5. Cost avoided due to lower service volumes.

**APPENDIX A
STATUS OF IOWA STATE UNIVERSITY
RESIDENCE SYSTEM MASTER PLAN PROJECTS**

The University has provided the following status report on Residence System Master Plan projects.

Maple Hall. This project, which was completed for fall 1999 occupancy, renovated 496 beds in a high-rise dormitory building. The project addressed deferred maintenance issues in a popular freshman residence hall and provided additional amenities. Actual cost = \$14,563,439.

Frederiksen Court Apartments. Phase 1, completed for Fall 2000, consists of 1,008 beds. Phase 2 provided 600 additional beds for Fall 2001 occupancy, with the remaining 384 beds available during Spring 2002. Phase 2 also included a community center, which incorporated dining options and communal support facilities. The community center was completed for Fall 2001. Actual cost = \$54,185,201.

Union Drive Association. The Board of Regents, State of Iowa approved a portion of a larger project to transform a residence neighborhood on the university's central campus by replacing 1,194 dormitory-style beds with 983 more desirable suite-style beds. The initial phase, providing utility infrastructure for the entire neighborhood, was completed in 2001, along with the demolition of 355 beds in the north wing of Helser Hall, a 1960s-style dormitory.

Eaton Hall. The first of three suite buildings, housing 319 students, opened for occupancy Fall 2002. Actual cost = \$20,646,655.

Union Drive Community Center. This major food and program support facility opened August 2003. Actual cost \$15,440,000.

Buchanan Hall. This project, initially projected to re-open Fall 2003, was delayed when bids received July 2002 for Phase 1 of the project came in over budget. The project was re-bid in May 2003 and work began in June. Seven of thirteen floors will open for occupancy at the beginning of the 2004 fall semester. The remaining floors and new north addition are scheduled to open by the end of September. Actual cost \$12,450,000.

Union Drive Suite 2. Construction of a second suite building began spring 2003. It is anticipated this new 332-bed facility will open for occupancy Fall 2004. Budgeted cost - \$19,992,000.

Westgate Hall. This 83-bed facility was demolished this year; parking will be constructed on the site. Budgeted cost = \$1,395,200.

Union Drive Suite 3. A third suite building to house 332 students was planned for occupancy in Fall 2005. This project and the associated demolition of 1927 Friley have been postponed indefinitely.

Friley Comprehensive Facility Review. The university is seeking board authorization at the March 2004 meeting for a comprehensive facility review of Friley Hall. Friley Hall is a large, complex facility comprised of several buildings constructed and connected to each other over six decades. This comprehensive facility review will catalog facility deficits, provide understanding of the renovation challenges presented by interconnected infrastructure components using various technology over six decades, identify optimum phasing models and insure resources are expended wisely in multiple building projects over several years. Estimated cost \$300,000.

Helser South demolition. In the original plan the remaining 713 dormitory-style beds in Helser Hall were to be demolished summer 2004 as construction of Union Drive Suite 3 was to be nearing completion. Since Suite 3 has been delayed indefinitely, this demolition project has been rescheduled for Summer 2008, deferred one year from the last presented schedule. This project includes clean up and development of resulting green space in Union Drive. Estimated cost = \$625,591.

Storms Hall closing and demolition. Storms Hall closed June 2003 due to lack of demand, removing 580 dormitory-style beds from the system. Demolition of Storms is scheduled for FY 2006, moved forward from FY 2007 in the last presented schedule. Estimated cost - \$1,325,000.

Knapp Hall closing and demolition. Knapp Hall closed January 2003 due to lack of demand, removing 580 dormitory-style beds from the system. Demolition of Knapp is scheduled for FY 2006, moved forward from FY 2009 in the last presented schedule. Estimated cost = \$1,325,000.