

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Resolutions for the Sale and Award of \$6,200,000 Indoor Multipurpose Use and Training Facility Revenue Bonds, Series I.S.U. 2003

Date: January 6, 2003

Recommended Action:

Recommend that the Board adopt the following resolutions (see G.D. 15), subject to receipt of acceptable bids:

1. A Resolution providing for the sale and award of \$6,200,000 Indoor Multipurpose Use and Training Facility Revenue Bonds, Series I.S.U. 2003, 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 \$6,200,000 Indoor Multipurpose Use and Training Facility Revenue Bonds, Series I.S.U. 2003, to pay the costs of constructing and equipping an indoor multipurpose use and training facility including funding a debt service reserve fund and paying the costs of issuance of the Bonds.
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Executive Summary:

The Banking Committee is requested to recommend that the Board adopt two resolutions related to the sale and award and issuance of \$6,200,000 Indoor Multipurpose Use and Training Facility Revenue Bonds, Series I.S.U. 2003.

At its November 2002 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to construct an indoor multipurpose use, training and practice facility for use by varsity football and other field-sports programs.

The University reports that of the \$9,371,800 approved budget, gift funds totaling \$3,986,000 are currently available. The ISU Foundation and the Athletic Department have pledges and other revenues to pay for the construction of the facility. However, the pledges are to be paid over a period of years.

Discussions among the University, the ISU Foundation, the Board Office, and the Board's bond counsel and financial advisor occurred over a number of months in late 2002 regarding financing for the portion of the project cost for which gift funds are not currently available.

Based upon these discussions, it was determined that a Board of Regents bond issue backed by an agreement with the ISU Foundation for gift revenues would be the preferred financing structure.

The Indoor Multipurpose Use and Training Facility will be established as a self-supporting enterprise. Income to provide for the operating costs of the facility and for debt service and debt service coverage will be derived from three sources:

- gift funds provided under an agreement with the ISU Foundation;
- income generated by charges to users of the facility; and
- a portion of the existing fee for Intercollegiate Athletics to be designated for the multipurpose facility. (There will be no increase in fees charged to students to finance this facility.)

The University anticipates that gift income will be more than sufficient to pay the debt service on the bonds for several years. Provisions will be made to release the student fee revenue not needed for the Multipurpose Enterprise to the Athletic Department budget in each year, once all debt service requirements and bond covenants have been satisfied.

Principal on the bonds would be repaid over a period of 17 years, with debt service of approximately \$530,000 annually.

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

Project

The project will construct an indoor multipurpose use, training and practice facility for use by varsity football and other field-sports programs. The facility will be constructed in the proximity of Jack Trice Stadium over the existing artificial turf practice field.

The project was bid on December 19, 2002. The bids received are under review by the University and a recommendation for a contract award may be received prior to the January Board meeting.

Financing

When the Board granted the University permission to proceed with the project in January 2002, it was noted that the private gifts were anticipated to be the source of funds for the project, with the specifics of financing to be part of the planning process involving the Board Office, legal and financial advisors, and the ISU Foundation.

When the schematic design and project description and budget were approved by the Board in July 2002, it was anticipated that the ISU Foundation would undertake the financing of the facility on behalf of the University to qualify for federal tax-exempt financing.

Further analysis of the alternatives by the University, ISU Foundation, the Board's bond counsel and financial advisor, and the Board Office led to the recommendation that the financing be undertaken as a Regent bond issue.

In the mid-1980's, the University used a similar self-liquidating enterprise structure to finance the Durham Computation Center with the Foundation providing a pledge of gift support for debt service on the bonds.

Analysis:

Issue Size

The bond issue size of \$6,200,000 includes:

- project costs (estimated at \$5,526,000);
- debt service reserve (estimated at \$535,000);
- underwriter's discount (estimated at \$93,000); and
- issuance costs (estimated at \$46,000)

Operation / Debt Service

Revenues to support the operation of the Indoor Multipurpose Use and Training Facility and to meet debt service requirements will come from three sources:

- *Gift Income:* Payments of gift pledges from the ISU Foundation will be paid directly to the debt service sinking fund and used only to retire debt. The Board, in approving the bond resolution, will approve an agreement with the ISU Foundation regarding the schedule of gifts which are pledged for the payment of principal and interest on the Bonds.

- *Fees Charged for Use of the Facility:* The primary user of the facility will be the ISU Athletic Department. Additional uses of the facility will involve special events for student groups or external groups such as Special Olympics. An appropriate fee structure will be developed to recover the operating costs of the facility.
- *Existing Student Fee for Intercollegiate Athletics:* There is an existing student fee of \$21 per semester designated for the operation of Intercollegiate Athletics. In the fee schedule acted on by the Board at its November 2002 meeting, this existing fee became a component of a mandatory Student Services Fee (as opposed to a component of designated tuition).
 - A portion of this fee will be designated as the Multipurpose Use and Training Facility Fee. Provisions will be made to release the revenue from this fee not needed for the Multipurpose Enterprise to the Athletic Department budget in each year, once all debt service requirements and bond covenants have been satisfied.

Outstanding Bonds The proposed series of bonds will be the first bond issue for the Multipurpose Use and Training Facility enterprise.

Receipt of Bids The receipt and opening of bids is scheduled for 10:00 a.m. on Thursday, January 16, 2003, and the award is scheduled for 11:30 a.m. on the same date.

A representative of Springsted, Inc., will report on the bids received and make a recommendation to the Board for award of the bonds.

Resolutions Copies of the resolutions, which were prepared by Ahlers Law Firm and reviewed by Springsted, Inc., are available from the Board Office.

Included as an attachment to one of the resolutions is an agreement between the Board and the Foundation whereby the Foundation agrees to make gifts to the Board of at least the specified amounts, by the specific dates to be used only to pay the costs of constructing and equipping the Multipurpose Facility, including principal and interest on the Bonds.

Bond Specifics Average Maturity: 10.4 Years
Bonds Dated: February 1, 2003
Interest Due: January 1, 2004 and July 1 and January 1 to maturity
Interest Exemption: Exempt from federal and state taxes for individual purchasers
Principal Due: July 1, 2004 – 2020
Optional Call: Bonds maturing on or after July 1, 2011 are callable commencing July 1, 2010 and any date thereafter at par
Denomination: \$5,000 and integral multiples thereof