

**MEMORANDUM**

**To** Banking Committee

**From:** Board Office 

**Subject:** Resolutions for the Sale of \$14,980,000 Dormitory Revenue Bonds, Series I.S.U. 2002

**Date:** January 7, 2002

**Recommended Action:** Recommend that the Board adopt the following resolutions (see G.D. 16), subject to receipt of acceptable bids:

1. A Resolution providing for the sale and award of \$14,980,000 Dormitory Revenue Bonds, Series I.S.U. 2002, 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 \$14,980,000 Dormitory Revenue Bonds, Series I.S.U. 2002, for the purpose of constructing and equipping a community center and related facilities and making other necessary improvements to existing residence halls and related facilities, all located on the campus of Iowa State University of Science and Technology, including funding the debt service reserve fund and paying costs of issuing the Bonds.

**(ROLL CALL VOTE)****Executive Summary:**

The Banking Committee is requested to recommend that the Board adopt two resolutions related to the sale and award and issuance of \$14,980,000 Dormitory Revenue Bonds, Series I.S.U. 2002.

At its November 2001 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to finance, in part, the construction of a new community center for the Union Drive Neighborhood Residential Community at Iowa State University.

Principal on the bonds would be repaid over a period of 25 years, with debt service of approximately \$1,090,500 to be paid from the net rents, profits and income from the operation of the residence system.

The University's residence system is a self-supporting operation and receives no state appropriations.

**Background:** At its October 2001 meeting, the Board approved the revised design documents for the Union Drive Community Center, which would construct a three-story facility of approximately 58,900 gross square feet (43,975 net square feet).

The facility would feature:

- Multiple service point food service and dining area (with a total capacity of 876), and
- Community center program space to serve the needs of the Union Drive Neighborhood.

Under the provisions of Iowa Code §§262.55 to 262.66, the Board is authorized to construct, equip, improve, repair, remodel, operate and maintain residence halls and dormitories, including dining and other incidental facilities, at the universities.

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**Analysis:**

**Size of Bond Issue** The proposed 2002 bond issue of \$14,980,000 would include:

- \$13,830,000 project costs;
- debt service reserve (estimated at \$1,090,500); and
- issuance costs (estimated at \$59,500).

**Parity Bonds  
Financial Test** Bonds ranking on a parity with outstanding bonds may be issued if one of two financial tests is met.

One of the tests permits the inclusion of future revenues to be generated by the facilities to be constructed.

Under the provisions of this test, a certificate which shows that the Residence System can make the debt service payments while maintaining all requirements of the Dormitory Revenue Bond covenants needs to be filed with the Board.

The Certificate of the Financial Officer of the University, Warren R. Madden, is attached to this memorandum.

The Certificate includes a table (financial proforma plan) showing the net revenues of the Residence System available for debt service in the first two years after completion of the facilities to be constructed with the bond proceeds.

- The financial proforma plan includes:
  - FY 2003 room rate increases ranging from 0 to 10%, depending upon the housing option, but with the rates for the majority of the units increasing by 7.5%.
  - Room rate increases for FY 2004 and beyond of 4% except for an increase of 5% for dormitory rooms and family housing in FY 2004.
  - Dining rate increases of 6% in FY 2003 and 4% in the out years.

As part of the docket memorandum on Approval of Tuition and Fees in November 2001, the University provided an estimated room and board charge for the 2002-2003 school year that would be 6.4% higher than the rate charged during the current school year.

A report of the State Auditor, who completed the last audit of the Residence System, commenting upon the assumptions used in projecting the revenues of the System is included in the Regent Exhibit Book.

**Residence System  
Outstanding Bonds**

The outstanding principal of the residence system existing bonds, as of June 30, 2001, is \$101.6 million.

**Receipt of Bids**

The receipt and opening of bids is scheduled for 10:00 a.m. on Wednesday, January 16, 2002, and the award is scheduled for 1:00 p.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.

Copies of the resolutions, which were prepared by Ahlers law firm and reviewed by Springsted, Inc., are included in the Regent Exhibit Book.

**Bond Specifics**

Average Maturity: 19.969 Years  
Bonds Dated: February 1, 2002  
Interest Due: July 1, 2002 and each January 1 and July 1 to maturity  
Principal Due: July 1, 2004 – 2028  
Optional Call: Bonds maturing on or after July 1, 2013 are callable commencing July 1, 2012 and any date thereafter at par  
Denomination: \$5,000 and integral multiples thereof

**CERTIFICATE OF FINANCIAL OFFICER**

**TO THE BOARD OF REGENTS, STATE OF IOWA:**

As the Financial Officer of the Iowa State University of Science and Technology, I have prepared the following certification of the estimated net revenues of the Residence System (as defined in the resolution adopted by the Board of Regents, State of Iowa (the "Board") on June 18, 1964 to authorize the issuance of its \$15,000,000 Dormitory Revenue Bonds, Series I.S.U. 1964A, and in subsequent resolutions authorizing the issuance of various series of outstanding dormitory revenue bonds ranking on a parity therewith.

In order to comply with the requirements and limitations provided in said resolution and in subsequent parity bond resolutions applicable to the issuance of additional dormitory revenue bonds ranking on a parity, I make this certification specifically with respect to the proposed issuance of \$14,980,000 Dormitory Revenue Bonds, Series I.S.U. 2002.

I certify that it is my opinion based upon necessary investigations that the net revenues of the Residence System available for debt service will not be less than 150% of the maximum amount that will become due for both principal and interest on the dormitory revenue bonds now outstanding and the bonds proposed to be issued (assuming the maturities as stated in the preliminary Official Terms of Offering dated January 8, 2002 and an annual interest rate of 5.24% or less), in any fiscal year prior to the longest maturity of any of the presently outstanding bonds which are payable through July 1, 2028. In compliance with the terms of the outstanding dormitory revenue bonds, "net revenues of the System available for debt service" as used herein consists of the estimated average annual net revenues for the entire System (based upon not greater than 93% occupancy of residence hall, dormitory and dining facilities capacity as determined by the regulations for occupancy and use now in effect), including those facilities now in operation, those now under construction and those being financed through the issuance of the proposed additional bonds, respectively, for the first two fiscal years after completion of the facilities to be paid for from the proceeds of each series of the proposed additional bonds.

Before presenting this certificate to the Board, I have submitted the same to the Auditor of State, being the independent public accountant who made the last audit of the Residence System, for comments as to the basis upon which estimates are made herein as to revenues to be derived from facilities not now in operations and submit the comments of said Auditor of State with this certificate. Attached hereto are tables setting forth my opinion as stated above with respect to net revenues of the Residence System available for debt service in the first two fiscal years after completion of the facilities to be paid for from the proceeds of the additional bonds proposed to be issued.

Dated this 3 day of January, 2002.



Warren R. Madden  
Vice President for Business and Finance

Residence Department - Master Plan Proforma  
 UDA Community Center (w Suite 1) with Knapp/Storms/Helser-North Demolitions (January 2002)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Revenue</b>												
Room	19,194,987	23,859,147	27,116,092	29,419,639	32,263,230	33,032,763	33,820,781	35,160,656	36,559,165	38,013,456	39,525,756	41,098,385
Family Apartments	3,748,168	3,749,094	4,001,567	4,244,231	4,446,641	4,620,290	4,800,800	4,988,446	5,183,509	5,386,285	5,597,081	5,816,216
Dining	15,917,145	15,977,773	16,389,747	17,799,460	18,474,723	18,745,139	19,241,187	19,985,670	20,779,785	21,564,843	22,402,121	23,272,790
Interest	2,736,254	2,912,057	2,399,766	1,544,838	1,240,871	1,240,878	1,272,444	1,333,073	1,469,400	1,625,353	1,830,736	2,058,357
	41,596,554	46,498,071	49,907,173	53,008,169	56,425,464	57,639,070	59,135,213	61,467,844	63,971,859	66,589,936	69,355,694	72,245,747
<b>Expenses</b>												
Room	15,515,090	17,950,940	19,219,393	20,284,414	21,683,365	21,866,789	21,990,153	22,454,926	23,353,123	24,287,248	25,258,738	26,269,088
Family Apartments	2,265,916	2,587,621	2,445,037	2,588,023	2,637,667	2,763,973	2,874,532	2,989,513	3,109,094	3,233,458	3,362,796	3,497,308
Dining	12,027,348	12,684,746	13,328,530	14,302,140	15,617,961	16,090,400	16,682,478	17,354,434	18,053,522	18,780,888	19,537,691	20,325,059
	29,808,354	33,223,306	34,992,960	37,174,577	39,958,992	40,721,162	41,547,163	42,798,874	44,515,739	46,301,594	48,159,225	50,091,455
Operating Income - Room	3,679,897	5,908,207	7,896,699	9,135,225	10,579,865	11,165,973	11,830,628	12,705,730	13,206,042	13,726,207	14,267,018	14,829,297
Operating Income - Apartments	1,482,252	1,161,474	1,556,530	1,656,208	1,788,974	1,856,317	1,936,268	1,998,932	2,074,415	2,152,827	2,234,285	2,318,908
Operating Income - Food	3,889,797	3,293,028	3,061,217	3,497,320	2,856,762	2,654,740	2,558,709	2,631,236	2,706,264	2,783,954	2,864,430	2,947,731
Operating Income - Interest	2,736,254	2,912,057	2,399,766	1,544,838	1,240,871	1,240,878	1,272,444	1,333,073	1,469,400	1,625,353	1,830,736	2,058,357
Net Operating Income	11,788,200	13,274,765	14,914,213	15,833,591	16,466,472	16,917,908	17,588,049	18,668,971	19,456,120	20,288,342	21,196,470	22,154,293
Debt Service	5,043,100	6,449,789	7,647,690	8,719,365	9,450,675	9,350,120	9,002,174	9,005,017	8,983,847	8,008,535	8,009,527	8,016,428
Annual Capital Improvements	5,530,634	4,307,893	4,879,458	10,566,451	5,788,500	5,671,765	6,110,816	4,700,245	4,888,253	5,083,784	5,287,136	5,498,620
Sinking and Improvement Transfer	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Scholarships	363,022	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000
University Overhead	720,375	720,375	734,783	749,478	764,468	779,757	795,352	811,259	827,484	844,034	860,915	878,133
Subtotal	12,157,131	12,338,057	14,121,931	20,895,294	16,863,643	16,661,642	16,768,342	15,376,520	15,559,584	14,796,352	15,017,578	15,253,181
Change in Surplus Balance	(368,931)	936,708	792,282	(5,061,702)	(397,171)	256,266	819,707	3,292,450	3,896,536	5,491,990	6,178,892	6,901,111
Cumulative Dept Surplus	8,531,192	9,467,901	10,260,183	5,198,480	4,801,310	5,057,575	5,877,282	9,169,733	13,066,269	18,558,259	24,737,151	31,638,262
Coverage Ratio--Annual	2.34	2.06	1.95	1.82	1.74	1.81	1.95	2.07	2.17	2.53	2.65	2.76
Coverage Ratio--Max Debt Service		1.40	1.58	1.68	1.74	1.81	1.95	2.07	2.17	2.52	2.63	2.75

Test #1 - Year preceding date of issue - minimum 1.35  
 Test #2 - 1st full year of operation and thereafter - minimum 1.50

Residence Department - Master Plan Proforma  
 UDA Community Center (w Suite 1) with Knapp/Storms/Helser-North Demolitions (January 2002)

**CURRENT ASSUMPTIONS:**  
 FY

- General Interest income is derived from unexpended funds available for investment throughout the annual period from the following fund types:
  - Revenue fund, Reserve Funds, Surplus Fund, and Construction Funds. These funds are assumed to earn interest at the simple rate of 3.0% per annum.
  - 2000 FY2000 operating results per FY2000 audited
  - 2001 FY2001 operating results per FY2001 audited
  - 2002 Helser - North demolition (-355 beds) May-01: Cost \$216.2K. Reduce Helser rev in FY 2001 by 34%, reduce Facilities exp by 20% by 20%  
**Translates as Helser-North is off line during all of FY01 and that all students are removed from the system in the future**
  - Friley Dining rev reduced by 15%, food costs by 15%, other expenditures by 5% (See note above regarding actual results)
  - 2003 \$21.665M bonds for UDA Utilities and Suite 1 (+320 beds): issued Jan-01 at 4.9%, on-line fall02  
 Friley Dining revenue increased by 16%, food costs by 16%, other expenditures by 20%
  - 2003 Close Buchanan Hall for renovation (390 beds). Reopen in FY 2004
  - 2004 \$14.95M bonds for UDA Community Center estimated to be issued Jan-2002, on-line fall03
  - 2005 Storms demolition (-570 beds) Summer04: Cost \$1.33M. Reassign 68% students into other halls  
 others removed from system. Reduce system revenue by 32%, facilities expenditures reduced by 100%, RL expenditures by 100%
  - Knapp/Storms dining: reduce revenue by 16%, food cost by 16%, other expenditures by 5%
  - 2006 Knapp demolition (-570 beds) Summer05: Cost \$1.59M. Same assumptions as Storms. +341 Students reassigned  
 Housing revenue reduced by 32%, expenditures by 100%, ResLife by 100%
  - Knapp/Storms dining: reduce revenue by 19%, food cost by 19%, other expenditures by 5%

**Maximum Debt Service**

FY00	9,450,675
FY01	9,450,675
FY02	9,450,675
FY03	9,450,675
FY04	9,450,675
FY05	9,350,120
FY06	9,005,017
FY07	9,005,017
FY08	8,983,847
FY09	8,057,385
FY10	8,057,385
FY11	8,057,385