

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Preliminary Resolution for the Sale of up to \$6,200,000 Utility System Revenue Refunding Bonds, Series S.U.I. 2003

Date: January 6, 2003

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 15) authorizing the Executive Director to fix the date or dates for the sale of up to \$6,200,000 Utility System Revenue Refunding Bonds (The State University of Iowa), Series S.U.I. 2003.

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 \$6,200,000 Utility System Revenue Refunding Bonds, Series S.U.I. 2003.

As discussed previously with the Banking Committee, interest rates are historically low and the yield curve is very steep. This scenario is particularly advantageous for current refundings (occurring within 90 days of the call date) since no escrow needs to be established.

The 1993 Utility System Revenue Bonds, with an outstanding principal of \$6,355,000, became callable on November 1, 2002, and may be called on any date after that time.

- The maximum sale amount of refunding bonds is less than the outstanding principal of the bonds to be refunded since a portion of the prior issue debt service reserve fund can be used as a source of funds for the refunding.

To take advantage of the historically low rates and an anticipated present value savings of more than \$400,000 between now and the last maturity of the bonds (2009), it would be advantageous to refund these bonds as soon as possible.

The bond issuance schedule approved by the Board in November 2002 did not include any bond sales in February 2003 since this meeting would be a telephonic conference call, if needed.

The Board's financial advisor (Springsted), bond counsel (Ahlers Law Firm), the University of Iowa, and Board Office recommend proceeding with a refunding to occur at a February telephonic meeting.

It is anticipated that the outstanding maturities of the bonds would be called on April 1, 2003.

The maturity schedules for the bonds would not change with the refunding.

Interest on the refunding bonds would be exempt from federal and state taxes (double tax-exempt) for individuals who purchase the bonds. Interest on the bonds to be refunded has also been double tax-exempt.

Background:

Interest Rates Bond coupon rates and the net interest rate for Regent bonds are very dependent upon market conditions at the time of issuance.

As interest rates decline, bonds can be refunded and annual and total debt service costs reduced.

Definition of Refunding A refunding is the issuance of bonds whose proceeds are used to pay principal, interest and/or call premium, if any, of an existing debt obligation; the old (refunded) debt is replaced with new (refunding) bonds.

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

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

Analysis:

Bonds to be Refunded

The proceeds from the sale of the proposed bonds would be used to refund bond principal of the Board's Utility System Revenue Bonds, Series S.U.I. 1993.

The bonds were issued in the amount of \$11,360,000, with a net interest rate of 4.73%, to pay the costs of utility improvements, including chilled water improvements, electrical distribution, steam services and storm and sanitary collection.

- The bonds became callable on November 1, 2002, without payment of any call premium;
- The outstanding principal is \$6,355,000;
- The last maturity is November 1, 2009; and
- The coupon (interest) rates on the 2003 to 2009 maturities range from 4.5% to 4.9%.
 - Current interest rates for bonds maturing in the same years are significantly lower.

Debt service on Utility System Revenue bonds is paid from Utility System charges and the proceeds of any Utility System Student fees which the Board may establish in the future.

The possibility that student fees may be established in the future provides additional security for the bonds.

Refunding Bond Issue

The size of the refunding bond issue would not exceed \$6,200,000 including issuance costs estimated at \$43,000.

Internal Revenue Service Requirements

Under Internal Revenue Service regulations, a current refunding must occur no more than 90 days prior to the payment of the refunded bonds.

- The sale of the refunding bonds would close in mid March 2003 and the refunded bonds would be called on April 1, 2003, meeting the requirements of the 90-day time period.

Resolution

A copy of 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.

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 the electronic bidding procedures.