

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Computer Leasing Program for the College of Design — Iowa State University

Date: July 6, 2001

Recommended Actions:

1. Recommend the Board authorize a pilot program for Iowa State University to provide a computer leasing program for students in the College of Design, on a voluntary basis, beginning the fall of 2001, subject to review by the Attorney General's Office and further consultation with the Board Office,.
2. Recommend the Board authorize the Executive Director, on behalf of the Board and Iowa State University, to enter into a financing arrangement of up to \$900,000 for FY 2002, for the University's purchase of approximately 250 laptop computers, for leasing to students in the College of Design, subject to reviews as indicated in Recommended Action 1.
3. Request the University provide the Banking Committee with an evaluation of operations in the first year of the program prior to receiving authorization to continue and financing the program.

Executive Summary:

Iowa State University plans to develop a computer leasing program for students in the College of Design. The University would purchase laptop computers, utilizing a financing mechanism to be determined, for the purpose of leasing the computers to the students. The University has provided two possible options for the University's purchase of these computers: 1) a taxable loan, obtained competitively, through a financial institution for an amount sufficient to purchase the needed computers, or 2) a lease-purchase arrangement with a computer manufacturer, such as Apple Computer.

Based on an informal survey, the University has concluded that there is student demand for this type of computer leasing program. If the program were approved, the University would evaluate the program and identify any potential issues that should be considered for continued operation of the program during the program's first year.

The proposed program calls for the University to purchase approximately 250 laptop computers in the first year to be leased to students. The students would lease the computers from the University for a three-year period at an interest rate sufficient to establish a loan loss reserve fund. At the end of the lease, students would be required to turn the computers in to the College so that any University software can be removed. The University plans to build the program over the next three years until all students of the College, other than freshman, would have access to this program.

Although the University has indicated this would be a voluntary program, the magnitude of the program — a laptop computer for every student — could easily transform it into an expected component of the College's academic offerings. Hence, the program could develop as an expectation with significant costs to individual students. The University estimates, for example, that the College-selected computer leased to the student at an 8.95% interest rate would cost \$700 per semester or \$1,400 per academic year. This amount would be equivalent to 40.7% of tuition and fees for the FY 2002 academic year.

Currently, all students pay mandatory computer fees. In the fall of 1990, the Board initiated a mandatory computer fee at all three Regent universities. Prior to this time, the institutions were charging numerous, miscellaneous computer fees for courses/programs. The Board consolidated these miscellaneous computer fees into a comprehensive fee to improve computer education and access for all students. The Board has also approved a few differing mandatory computer fees at the University of Iowa and Iowa State University, depending on the related field of study. For example, Iowa State University has the following mandatory computer fees for FY 2002:

All students except Engineering, Computer Science & Management Information Systems students	\$144
Graduate students	116
Engineering students	366
Computer Science & Management Information Systems students	292

The Attorney General's Office is reviewing various aspects of this proposed program. A report of the review will be provided at the Banking Committee meeting.

Representatives of the College will be present at the Banking Committee meeting to answer questions.

Iowa Code §8.46 requires notification to the Legislative Fiscal Bureau of any lease-purchase or installment acquisition arrangements totaling \$50,000 or more at least 30 days prior to entering into the contract. If a lease-purchase is the most economical financing, notification to the Legislative Fiscal Bureau will be made. The information provided to the Legislative Fiscal Bureau will be provided to the Legislative Fiscal Committee at its next scheduled meeting.

Background:

The College of Design at Iowa State University, created in 1978, served 1,960 students in the fall of 2000. The College offers undergraduate and graduate curricula in architecture, graphic design, interior design, integrated studio arts, landscape architecture, and community and regional planning.

ISU reports that the pedagogy of the College of Design is overwhelmingly studio-based. Programs like Architecture, Landscape Architecture, Graphic Design, Interior Design, Community and Regional Planning, and some of the Integrated Studio Arts programs use computers daily to perform tasks that were once mainly done by hand. The University believes that the computer (and associated software) is an indispensable tool for students and that a wireless laptop computer is the most compatible educational method for this College.

The College currently supports 80 desktop computers in three public lab settings. This is not enough to meet the growing needs of the College. The College cannot afford to purchase a laptop computer for every student. The University has stated that if each student had a laptop computer with ready access to the necessary software, the College would be able to preserve the unique learning and teaching environment.

In addition to the computers, access to specific software is necessary for students in the College to complete assigned tasks. The software required for these students is often very expensive and changes rapidly with new technology. For instance, a graphic design student wanting to purchase the necessary software would be expected to pay an additional \$1,800 for seven software packages at educational rates. This amount would not necessarily have to be paid every year, but with the rapidly changing software development cycle, every two years would not be uncommon.

The University is proposing a voluntary student computer leasing program, which, according to the University, is designed to provide students with computers in the most economical manner possible. The University states that this program will remain a voluntary program. Students who decide against participation in this leasing program will be able to access comparable computing technologies in the public labs. All aspects of the proposal are subject to final review by the Attorney General's Office.

Program Description:

The University plans to purchase laptop computers and then lease the computers to students in the College of Design. The University has provided two possible options for the University's purchase of these computers: 1) a competitive taxable loan through a financial institution or 2) a lease-purchase arrangement with a computer manufacturer, such as Apple Computer.

The University would then lease the computers to students in the College of Design for a three-year period. The student's interest rate for the lease would be set by the University at a rate high enough to establish a loan loss reserve fund. At the end of the lease, students would be required to turn the computers in to the College so that any University software can be removed. Students would be given the option to buy out the contract for \$1 at the end of the 3-year lease agreement.

The University wishes to begin this leasing program on an experimental basis during the fall 2001 term with sophomore students entering the professional programs of the College or the technology dependent students in Integrated Studio Arts.

Based upon the number of sophomore students who would be eligible for the program, the University envisions a maximum of 250 eligible leases in the first year. The actual number who might enroll in the program may be somewhat less. If this trial phase were successful, the University would expand the program for up to three years until all of the interested students of the College would be accommodated. The College believes that they may have as many as 900 laptops leased once all programs are fully served.

For students in a five-year academic program, the College anticipates that the student may choose to upgrade the computer for a fourth year and begin a one-year lease. The lease would then expire when the student graduates and the College would remove the College-owned software. The College has also stated that many students may not find it necessary to have their own computers in the world of practice, but some may want to exercise that option. The College still needs to work out details for students using the computers for a fourth year.

Students who change majors, and are no longer enrolled in the College of Design, would be able to continue to pay the lease to retain the computer or they could turn the computer in to the College. The College would then re-lease the computer to another student. The College needs to develop program details regarding issues related to this type of situation, such as cancellation of the lease, refunds to students, and the leasing of a used computer.

Analysis:

Financial Considerations:

The University would borrow up to \$900,000 per year for a 3-year period for three years, for a possible total loan/lease amount of \$2.7 million. The University cannot use the Board's Master Lease agreement since no guarantee can be made about the private use of the computers by the students. The lease period of three years is at the top end of the useable life of a laptop computer in the design industry. The University plans to obtain the most economical financing available for this program through the solicitation of financing proposals.

In the lease arrangement with the students, the University would charge students interest at 2% more than the financing rate obtained by the University as a contingency for a loan loss reserve. The College would be responsible for any losses above the contingency amount collected in the loan loss reserve. The College has indicated that they would initially be leasing these computers to students entering the College's professional programs, which have a high historical retention rate. The College believes losses will be kept to a minimum.

For example, if the University were able to obtain financing on the computers at a 6.95% annual interest rate, students would be billed at an 8.95% interest rate. On a \$3,600 computer (the estimated cost of the computer chosen by the College of Design), the students would be billed \$700 per semester for six semesters.

Insurance: The machines will be insured by Iowa State University with a \$500 deductible, payable by the student. A \$5 annual premium would be included in the lease amount.

Program Advantages:

The University has provided the following information regarding the advantages of the computer lease program.

The first advantage of the lease program is that the computers would be owned by Iowa State University throughout the lease period, which entitles ISU to use university site-licensed software on these machines. This would enable students to have access to the most up-to-date software and potentially a larger suite of programs.

The University expects to purchase the additional software for the laptop machines with the College's share of the existing mandatory computer fees. Historically, the College has used the computer fees to support technology infrastructure in the College, the three public labs in the building, and the software for those labs.

The College would make the software available through a software product called KeyServer, which would allow the College to meter software usage across the network. For example, if a pool of 50 Photoshop (software program) licenses is purchased, the College can load the software on 100 machines, but only 50 people would be able to use the software at one time. If experience indicates that more access is needed, the College could add to the license pool. The College believes that this arrangement would allow a larger suite of possible software programs for student use.

Another advantage to this program is that technical support for these machines will be available for students. The information technology staff in the College only supports University-owned equipment. Under this program, an additional technical support position would be added to help support students and their leased computers. The position would be funded through reallocations in each department of the College.

The University is considering two different computer configurations, an Apple Macintosh laptop and a Dell Latitude laptop. However, it is possible that computer company proposals may also include configurations such as Apple Titanium PowerBooks or IBM compatible laptops. Since the computer configurations would be limited, the information technology staff would be able to troubleshoot common problems quickly. If a system-wide problem should occur, the technical staff would be better able to quickly make adjustments, as necessary.

Many of the necessary technical components for a successful computer leasing program are already in place, or in process. These include the LoFT (Laboratories on Forward Technologies), a suite of studios and laboratories on the top floor of the College of Design building equipped with state-of-the-art information technologies supporting learning environments for advanced and graduate students of each discipline. Other components are three teaching labs for undergraduate use, a suite accommodating the information technology support staff of the College, a new distance education facility, the Cowles Design X.PORT, and other facilities.

The College environment, including the primary building and Armory, is currently being recabled to permit 100 megabit network access and prepare the way for wireless, ubiquitous computing within the collegiate domain. The University believes that the Student Computer Leasing Program is the next step in this larger strategy aimed at equipping the collegiate community with the most advanced technological environment possible.