

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Resolution Authorizing and Providing for the Issuance of University of Iowa Facilities Corporation Revenue Bonds (Pomerantz Center), Series 2003

Date: July 7, 2003

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 6) Authorizing and Approving the Execution and Delivery of the Ground Lease, the Lease, the Indenture, the Bond Purchase Agreement, the Tax Exemption Certificate and the Continuing Disclosure Certificate, and Authorizing and Providing for the Issuance of University of Iowa Facilities Corporation (Pomerantz Center) \$11,325,000 Revenue Bonds, Series 2003 and Providing for the Payment Thereof.

Executive Summary:

Request	<p>The Banking Committee is requested to recommend that the Board adopt a resolution approving various lease documents, indenture, a bond purchase agreement, and certificates related to the sale of University of Iowa Facilities Corporation Revenue Bonds for the Pomerantz Center.</p> <p>At its May 2003 meeting, the Board adopted a resolution authorizing the Executive Director to take all action needed to effect the issuance of the bonds.</p>
Purpose	<p>The bonds would be sold to provide a portion of the funds needed to construct the facility, which would permit expansion and improvement in the University's career counseling and placement services, provide new general assignment classrooms and an auditorium, and house the Academic Advising Center.</p>
Schedule	<p>The calendar year 2003 bond issuance schedule, approved by the Board in November 2002, included a sale by the University of Iowa Facilities Corporation in June 2003 to provide partial funding for the facility. The sale was delayed until July due to the Board's consideration, at its June meeting, of the future status of active capital projects. At that meeting, the Board acknowledged that the Pomerantz Center project had received final project approval for construction.</p>

Facilities Corporation	The University of Iowa Facilities Corporation was incorporated in 1967 as a not-for-profit supporting organization of the University of Iowa Foundation to assist in maintaining, developing, increasing, and extending the facilities and services of the University.
Internal Revenue Service Rulings	Although the bonds are being issued by the Corporation, they are deemed by Internal Revenue Service rulings to be issued “on behalf” of the Board of Regents and the State of Iowa, meeting the requirements for tax-exemption of interest for federal (but not state) income tax purposes. The Board of Regents must therefore approve the sale and terms of the bonds.
Bond Structure	<p>The bond structure for the University of Iowa Facilities Corporation bond issue differs from the structure used for Board of Regents bonds.</p> <ul style="list-style-type: none">• The Corporation will issue the debt and lease the facility to the Board for use by the University during the term of the bonds.• Upon retirement of the bonds, the facility will be conveyed to the University.
Bonds	<p>The financing would be issued as a bullet (single) maturity bond, with only net annual interest costs (annual interest payments less estimated annual debt service reserve fund earnings) of approximately \$385,000 being paid until the year of maturity (2010) when the principal would be repaid.</p> <p>The Facilities Corporation would make the interest payments and principal payment from rent received from the University under the terms of the lease. Cash flow requirements would be provided from gifts to the University of Iowa Foundation and University of Iowa funds, with the University’s interest earnings from investments as the primary source of funds for the annual interest only debt service payments.</p>

Background:

History	<p>In March 2000, the Board granted the University permission to proceed with a project to develop a facility to house expanded career counseling and placement services for students, with the new facility to be located on the east side of the T. Anne Cleary Walkway across from the Chemistry Building.</p> <ul style="list-style-type: none">• Career counseling and placement services are currently housed in inadequate and scattered locations throughout campus.
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- The University noted that it would also identify other compatible academic / student service needs to be housed in the building to make the most effective use of the prime central campus location.

In November 2001, the Board, pursuant to Board policy, approved the naming of the new facility in honor of Marvin and Rose Lee Pomerantz. University naming actions may be undertaken only with the specific approval of the Board of Regents.

The Board approved the program statement for the facility in March 2002, the schematic design in October 2002, and the project description and total budget in January 2003.

- In addition to permitting expansion and improvement in the career counseling and placements services, the Pomerantz Center will include new general assignment classrooms and an auditorium to replace antiquated spaces in the Chemistry Building.
- The Center will also house the Academic Advising Center which would relocate from the Quadrangle Residence Hall to maximize its relationship with the career service functions to be housed in the facility.
- The approved budget includes the following sources of funds:

Facilities Corporation Revenue Bond Proceeds*	\$10,000,000
Private Gifts	4,000,000
Income from Treasurer's Temporary Investments	3,289,000
Utility Enterprise Funds	<u>300,000</u>
TOTAL	\$17,589,000

* Debt service on the bonds to be paid from interest earnings from investments and gifts to the University of Iowa Foundation.

Project Schedule The project was bid on May 28, 2003; a construction contract was awarded subsequent to Board action at its June meeting acknowledging that the project had received final project approval for construction.

Analysis:

Financing Financing for the Pomerantz Center would be similar to the financing used for the Medical Education and Biomedical Research Facility Extended Project (MEBRF-A) and the Carver Biomedical Research Building (CBRB).

The Corporation will issue the debt and lease the facility to the Board for use by the University during the term of the bonds.

Lease Obligations The University's lease obligation with the Corporation will be an absolute and unconditional obligation of the University of Iowa. Lease payments are to be sufficient to pay the interest and principal on the bonds; supplemental rents are equal to administrative and trustee expenses.

The University expects to enter into a memorandum of understanding with the University of Iowa Foundation regarding the commitment of gifts to meet the debt service payments of the bonds, particularly the principal requirements, with the University committed to fund only annual interest payments.

According to the University, approximately eighty percent of the funds needed to pay the total debt service requirements have been pledged. Fund raising is continuing.

Bond Insurance The four series of bonds (1998, 2000, 2000A, and 2002) issued by the University of Iowa Facilities Corporation for MEBRF-A and the one series of bonds issued to date for the CBRB were insured by a municipal bond insurance policy issued by Ambac Assurance Corporation; the policy insures the payment of principal and interest to the bondholders.

The bonds had the highest rating from the credit rating agencies, Moody's Investors Service and Standard and Poor's; this rating produced an interest rate reduction sufficient to offset the policy premium.

Due to the continued market acceptance of Facilities Corporation Bonds and the short duration of the bonds to be sold for the Pomerantz Center, the Board's financial advisor does not believe that bond insurance is needed for this bond issue. The interest rate reduction would not be sufficient to offset the policy premium.

Issue Size The issuance size of \$11,325,000 would include:

- Project costs (estimated at \$10,000,000);
- Debt service reserve (estimated at \$1,132,500)
- Issuance costs (estimated at \$56,600); and
- Bond discount (estimated at \$135,900).

Sale The bond sale is scheduled for Thursday, July 17, 2003. The bid opening will occur at 10:00 a.m. on that date.

The Executive Committee of the Board of Directors of the Facilities Corporation is expected to approve the sale and terms of the bonds based on the best bid at a meeting scheduled for that date.

The Board of Regents, at its regularly scheduled meeting, will be asked to approve the previously referenced resolution, which was prepared by Ahlers Law Firm.

Bond Specifics	Maturity:	6.83 Years
	Bonds Dated:	August 1, 2003
	Interest Due:	December 1, 2003, and each June 1 and December 1 to maturity
	Principal Due:	June 1, 2010
	Optional Call:	None
	Tax-Exempt Status	The bonds are exempt from federal but not state of Iowa income tax
	Denomination:	\$5,000 and integral multiples thereof
Bond Documents	Further information on the bond documents is included in Appendix A.	

APPENDIX A

The Bond Documents

The Bond structure for the Pomerantz Center differs from the ordinary in several respects as is illustrated by a brief description of the principal documents to be approved by the Board of Directors of the University of Iowa Facilities Corporation and by the Board of Regents, State of Iowa at the time of the sale.

The documents are as follows:

1. **Ground Lease**. By the Lease, the Board has leased the site of the Facility to the Corporation.
2. **The Lease**. The Corporation leases the Facility back to the Board for use of the University during the term of the Bonds. Basic rents are equal to principal and interest payments on the Bonds (and are assigned to the Indenture Trustee to secure Bond payments). Supplemental rents are equal to administrative and Trustee expenses.

This is a capitalized lease under which the Bond proceeds are made available to the Board to construct and acquire the Facility on behalf of the Corporation.

The obligation to pay rent likewise begins when the bond proceeds are turned over. Risks of delay or problems in completing the Facility rest with the University and the Board. A Summary of the Lease has been prepared for inclusion in the Official Statement.

3. **Indenture**. The Basic Rents are assigned by the Corporation to Wells Fargo Bank, National Association, as Trustee to pay the bondholders. The Indenture embodies the terms of the Bonds and related covenants which are found in the Bond resolution in other financings.

The Indenture is a complex document, made more so by the lease-based structure of this financing. A summary of the Indenture has been prepared for inclusion in the Official Statement.

4. **Bond Purchase Agreement**. The Bond Purchase Agreement incorporates the terms of purchase by the successful bidders.
5. **Tax Exemption Certificate**. This is a customary document which sets forth the Issuer's expectations as to the use of Bond proceeds and the Facility to evidence its intent to comply with federal tax regulations which restrict the uses to be made of the proceeds and the Facility. In this case, the Issuer of the Bonds is the Corporation and the user of the Facility is the University, and both approve and sign the Tax Exemption Certificate.
6. **Continuing Disclosure Certificate**. This is given to the purchaser at closing to enable the Bonds to be reoffered. It commits the Issuer and the University to report to certain public information agencies as to annual financial information or the occurrence of certain adverse events. The financial reports covered are those of the University, since the financing is based upon its obligation to pay rents, and the Facilities Corporation.