MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Sale and Award of $4,225,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2003A

Date: July 7, 2003

Recommended Action:

Recommend that the Board adopt the following resolutions (see G.D. 6), subject to receipt of acceptable bids:

1. A Resolution providing for the sale and award of $4,225,000 Academic Building Revenue Refunding Bonds, Series. U.N.I. 2003A, 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 $4,225,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2003A, for the purpose of refunding the 2004 through 2012 maturities of the $6,520,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 1993, dated November 1, 1993 presently outstanding and heretofore issued by the Board to refund bonds issued to defray costs of building construction projects on the campus of the University of Northern Iowa.

Executive Summary:

The Banking Committee is requested to recommend that the Board adopt two resolutions related to the sale, award and issuance of $4,225,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2003A.

At its June 2003 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to refund all outstanding maturities of the U.N.I. Academic Building Revenue Bonds, Series 1993 (originally issued in the amount of $6,520,000).

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.

Under the provisions of the Bond Resolution adopted by the Board when the 1993 bonds were sold, the bonds may be called on any date or after July 1, 2003, at par plus accrued interest.

The 1993 bonds would be called on September 1, 2003, meeting the requirements for a current refunding since they would be called within 90 days of the issuance of the 2003 Refunding Bonds.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue.

The estimated net future value and net present value savings from the refunding in future tuition replacement appropriations between 2004 and 2012 total more than $350,000 and $300,000, respectively.

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 Iowa residents 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.

The net interest rate for Academic Building Revenue Bonds (including refunding bonds) issued since 1971 has ranged from a low of 3.11% in 2003 to a high of 11.19% in 1981.

As interest rates decline, bonds can be refunded and annual and total debt service costs reduced. In the case of Academic Building Revenue Bonds, reduced annual debt service reduces the amount needed for the tuition replacement appropriation.

Tuition Replacement Appropriations

Tuition replacement appropriations represent an ongoing commitment of the state to meet the debt service cost of Academic Building Revenue Bonds. Tuition and fee revenues are pledged for debt service payments for the bonds and the tuition replacement appropriation replaces that university revenue.

Tuition replacement needs for each university are comprised of debt service payments (principal and interest), less the net interest earned on the sinking and reserve funds. As reserve funds are reinvested at interest rates lower than currently being earned, interest earnings will decline and the amount needed for the tuition replacement appropriation will increase, absent any refundings.

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.

Analysis:

Bonds to be Refunded	The proceeds from the sale of the proposed refunding bonds would be used to refund bond principal of the Board's Academic Building Revenue Refunding Bonds, Series U.N.I. 1993. The principal to be refunded totals $4,190,000. There is no call premium. The 1993 refunding bonds were issued as advance refunding bonds (more than 90 days before the call date) and refunded the outstanding principal of the U.N.I. Series 1987 bonds. The 1987 bonds were issued to partially finance construction of what is now known as the Curris Business Building and for the renovation of Latham Hall. Coupon rates on the 2004 - 2012 maturities of the 1993 Series Bonds range from 4.2% in 2004 to 4.625% in 2012. Interest rates are currently much lower than the rates on the outstanding bonds.
Refunding Bond Issue	The refunding bond issue of $4,225,000 includes issuance costs estimated at approximately $35,000.
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-August and the refunded bonds would be called on September 1, 2003, meeting the requirements of the 90-day time period.
Bids	The receipt and opening of bids is scheduled for 10:30 a.m. on Thursday, July 17, 2003, and the award is scheduled for 11:30 a.m. on the same date.

Bond Specifics

Average Maturity:	4.98 Years
Bonds Dated:	August 1, 2003
Interest Due:	January 1, 2004, and each July 1 and January 1 to maturity
Interest Exemption:	Exempt from federal and state taxes for individual purchasers who are Iowa residents
Principal Due:	July 1, 2004 – 2012
Optional Call:	Bonds maturing on or after July 1, 2010, are callable commencing July 1, 2009, and any date thereafter at par
Denomination:	$5,000 and integral multiples thereof

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