

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Resolution Authorizing the Executive Director to Effect the Issuance of up to \$25,000,000 University of Iowa Facilities Corporation Revenue Bonds (Roy J. and Lucille A. Carver Biomedical Building), Series 2002A

Date: July 8, 2002

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 8) authorizing the Executive Director to take any and all action deemed necessary to effect the issuance of not to exceed \$25,000,000 University of Iowa Facilities Corporation Revenue Bonds (Roy J. and Lucille A. Carver Biomedical Building), Series 2002A.

Executive Summary:

Request	The Banking Committee is requested to recommend that the Board adopt a resolution authorizing the Executive Director to take action needed for the issuance of not more than \$25,000,000 University of Iowa Facilities Corporation Revenue Bonds for the University of Iowa Carver College of Medicine Roy J. and Lucille A. Carver Biomedical Research Building (CBRB).
Purpose	The bonds would be sold to provide a portion of the funds needed to construct the facility.
Schedule	The calendar year 2002 bond issuance schedule, approved by the Board in November 2001, included a sale by the University of Iowa Facilities Corporation in September 2002 to provide partial funding for the CBRB.
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 terms of the bonds.• Upon retirement of the bonds, the facility will be conveyed to the University.
Bonds	<p>The last maturity of the bonds to be issued would be June 1, 2023. Annual debt service of approximately \$1.9 million would be paid from lease rentals, which will be paid by the University to the Facilities Corporation under the terms of the lease.</p>

Background:

History	<p>In November 1999, the Board granted the University permission to proceed with planning for the Extension of the Medical Education and Biomedical Research Facility (MEBRF – B).</p> <p>In March 2001, the Board approved the schematic design for the project that would construct a 131,500 gross square foot facility to house research facilities and administrative functions of the College of Medicine (renamed the Roy J. and Lucille A. Carver College of Medicine by Board action in March 2002).</p> <p>In November 2001, the Board approved the naming of the College of Medicine Proposed Building B as the Roy J. and Lucille A. Carver Biomedical Research Building (CBRB).</p> <ul style="list-style-type: none">• The building was named for the Carvers in recognition of a \$10,000,000 gift from the Roy J. Carver Charitable Trust to support capital development of the College of Medicine. <p>In March 2002, the Board approved a project description and budget in the amount of \$40,731,000 for the CBRB.</p> <ul style="list-style-type: none">• Anticipated funding for the project was listed as University of Iowa Facilities Corporation Bonds and College of Medicine Gifts and Earnings. <p>For purposes of the bond issue, the Project will be defined to include costs associated with the preparation and improvement of the site.</p>
Project Schedule	<p>The project is scheduled to be bid in late fall 2002.</p>
Financing	<p>Financing for the project would be similar to the financing used for the Medical Education and Biomedical Research Facility Extended Project (MEBRF-A). The last series of bonds for this project was issued in June 2002.</p>

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

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

Analysis:

Rationale The financing for the CBRB would be similar to the financing used for the MEBRF-A. The Corporation will issue the bonds and the Facility will be leased to the University.

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.

Outstanding Bonds Principal outstanding, as of July 1, 2002, of SUI Facilities Corporation bonds for projects at the Health Sciences Campus include:

John W. Eckstein Medical Research Building, 1986 Bonds, interest rates fixed in 1999)	\$ 8,585,000
Medical Education and Biomedical Research Facility – A (MEBRF – A) (1998 Bonds)	20,810,000
MEBRF-A (2000 Bonds)	20,810,000
MEBRF-A (2000A Bonds)	5,550,000
MEBRF-A (2002 Bonds)	<u>7,810,000</u>
Total	<u>\$63,565,000</u>

The total annual debt service payment for the above bonds is approximately \$6.4 million.

Bond Insurance The four series of bonds (1998, 2000, 2000A, and 2002) issued for MEBRF-A 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.

The use of insurance enhances the marketability of the bonds. The use of bond insurance was therefore more beneficial to these financings than for Board of Regents bonds which have recognized market acceptance. It is envisioned that insurance will be evaluated for possible use for the upcoming bond issue for CBRB.

Issue Size	<p>An issuance size of \$25,000,000 would include:</p> <ul style="list-style-type: none">• Project costs (estimated at \$22,675,000);• Debt service reserve (estimated at \$1,946,700)• Issuance costs (estimated at \$84,500);• Bond discount (estimated at \$175,000); and• Bond insurance premium (estimated at \$118,800).
Additional Financing	<p>An additional bond sale would be scheduled to complete the project financing; it is envisioned that this sale would occur in late calendar year 2003.</p>
Resolution	<p>The resolution authorizing the Executive Director to take action needed to effect the issuance of the bonds, which was prepared by Ahlers Law Firm and reviewed by Springsted, Inc., is available from the Board Office.</p> <p>The resolution includes a provision permitting the receipt of 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 electronic bidding procedures.</p>
Sale Date	<p>The bond sale and award would be scheduled in conjunction with the September Board meeting.</p>
