

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Resolution Authorizing and Providing for the Issuance of University of Iowa Facilities Corporation (Medical Education and Biomedical Research Facility Project) \$7,810,000 Revenue Bonds, Series 2002

Date: June 10, 2002

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D.13) Authorizing and Approving the Execution and Delivery of the Ground Lease and the Lease and 2002 Amendments thereto, the Indenture, the Second Supplemental 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 (Medical Education and Biomedical Research Facility Project) \$7,810,000 Revenue Bonds, Series 2002, and Providing for the Payment Thereof.

Executive Summary:

Request	<p>The Banking Committee is requested to recommend that the Board adopt a resolution authorizing and approving various lease documents, indentures, a bond purchase agreement and certificates related to the sale of \$7,810,000 University of Iowa Facilities Corporation Revenue Bonds for the University of Iowa College of Medicine Medical Education and Biomedical Research Facility (MEBRF) project. (Appendix A, page 5 includes a description of the documents.)</p> <p>At its May 2002 meeting, the Board adopted a resolution authorizing the Executive Director to take all action needed to effect the issuance of the bonds.</p>
Purpose	The bonds would be sold to provide funds to complete the cost of constructing, improving, expanding and equipping 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 June 2002.
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	The last maturity of the bonds to be issued will be June 1, 2023. Debt service of approximately \$621,600 annually will be paid from lease rentals, which will be paid by the University to the Facilities Corporation under the terms of the lease.

Background:

History	<p>In May 1996, the Board granted the University permission to proceed with project planning for the Health Sciences Campus Capital Plan.</p> <p>In June 1997, the Board approved the schematic designs and project descriptions and budgets for a number of components of the Plan, including the MEBRF.</p> <p>The Board approved revised budgets for the MEBRF in December 1998 and June 2001.</p>
Financing	<p>In August 1998, the University of Iowa Facilities Corporation issued \$22,250,000 of revenue bonds to help finance the MEBRF Extended Project (Project).</p> <p>For the purposes of the bond issue, the Project was defined as including demolition, site preparation, including relocation and extension of underground utility distribution systems, and site development costs in addition to construction of the facility.</p> <p>The Official Statement also noted that, as a result of the Project, the University would incur additional costs for relocation of facilities for College of Medicine occupants of the former Steindler building and facility equipment and furnishings.</p> <p>Additional bonds (Series 2000 and Series 2000A) totaling \$28 million were sold for the project in September 2000.</p> <p>The estimated total cost of the Project is \$98 million.</p>

In addition to the Facilities Corporation Bonds, other sources of funding for the Project include \$27 million in State capital appropriations authorized by the 1997 General Assembly; Utility System Bonds; and University / Carver College of Medicine Gifts and Earnings.

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

Analysis:

Rationale In the sales of the Series 1998, 2000 and 2000A Facilities Corporation bonds, provision was made for additional bonds to complete the Project.

Proceeds of the additional bonds, net of issuance costs and reserves, and gift moneys in hand available for the purpose will complete the Project financing and will cover the increase in the Board approved budget (since the 2000 bond sales) and the funds required to be maintained as reserves.

Lease Obligations The University's 1998 and 2000 lease obligations with the Corporation are absolute and unconditional obligations 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 2002 lease obligation would be similar.

Outstanding Bonds Bonds issued to date for the Medical Education and Biomedical Research Facility Extended Project total \$50.3 million; principal outstanding as of June 2, 2002, is \$47.2 million.

Bond Insurance The 1998 and 2000 bonds 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.

Insurance by Ambac Assurance Corporation will also be used for the 2002 issue. It is expected that insurance will provide the same benefits as did the use of insurance on the 1998, 2000 and 2000A Series Bonds.

Issue Size	<p>The issue size of \$7,810,000 includes:</p> <ul style="list-style-type: none">• Project costs (estimated at \$7,000,000);• Debt service reserve (estimated at \$621,600)• Issuance costs (estimated at \$48,000);• Bond discount (estimated at \$102,200); and• Bond insurance premium (estimated at \$38,200).
Sale	<p>The bond sale is scheduled for Thursday, June 20, 2002. The bid opening will occur at 10:00 a.m.</p> <p>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.</p> <p>The Board of Regents, at its regularly scheduled meeting, will be asked to approve the previously referenced resolution.</p>
Bond Specifics	<p>Average Maturity: 12.878 Years</p> <p>Bonds Dated: July 1, 2002</p> <p>Interest Due: December 1, 2002 and each June 1 and December 1 to maturity</p> <p>Principal Due: June 1, 2004 – 2023</p> <p>Optional Call: Bonds maturing on or after June 1, 2013 are callable commencing June 1, 2012 and any date thereafter at par</p> <p>Denomination: \$5,000 and integral multiples thereof</p>

APPENDIX A

The Bond Documents

This is the fourth issue for the Medical Education and Biomedical Research Facility project. The first bonds were issued in 1998 and two series were issued in 2000. It is now necessary to sell and issue bonds to complete the project.

This Bond structure 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. The amended Ground Lease conformed the description of the leased land to the location of the Facility as constructed and added to the Lease the land upon which the Materials Management Facility is located. The amended Lease also added specific dates, and is an amended and substituted Ground Lease.
2. **2002 Amendments to Amended Ground Lease**. The 2002 Amendments extend the term of the Amended Ground Lease to 2023 to conform to the maturity schedule of the Series 2002 Bonds.
3. **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 as 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. The 2000 Amendments to Lease conformed the description of the leased land to the location of the Facility as constructed and added the land upon which the Materials Management Facility has been constructed. The 2000 Amendments to Lease also amended Section 3.2 of the Lease to provide for the issuance of the Series 2000 Bonds and the Series 2000A Bonds, and refined the description of the Facility and the Leased Land.

4. **2002 Amendments to Lease**. The 2002 Amendments extend the term of the Lease to 2023 to conform to the maturity schedule of the 2002 Bonds.

5. **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.

6. **Second Supplemental Indenture**. A Supplemental Indenture is contemplated in the Indenture dated as of August 11, 1998, and contains the authorization, terms, and issuance of the Series 2002 Bonds, including the form of bond which is authorized, and the terms of the Series 2002 Bonds.
7. **Bond Purchase Agreement**. The Bond Purchase Agreement incorporates the terms of purchase by the successful bidders.
8. **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.
9. **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.