

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Annual Master Lease Report
Date: June 9, 2003

Recommended Action:

Receive the annual report on lease purchases under the master lease agreement.

Executive Summary:

Board Policy	<p>The Board has established a master lease agreement to provide short-term financing (3 to 10 years) for real and personal property.</p> <p>The <u>Regent Policy Manual</u> §7.04 requires that an annual report on outstanding activity under the master lease agreement be submitted to the Banking Committee; prior to revisions to the <u>Policy Manual</u> earlier this year, semi-annual reports were required.</p>
Master Lease Agreement	<p>The master lease program has operated through Wells Fargo (previously known as Norwest Investment Services) as a result of Request for Proposal processes held in 1991, 1996, and 2001.</p> <p>The Board approves each financing utilizing the master lease agreement and Wells Fargo must agree to lease the property.</p>
Lease Activity	<p>Two leases in the total amount of \$1.7 million have been entered into under the current agreement (effective January 1, 2002).</p> <p>Leases issued under the 1996 agreement totaled \$12.4 million (includes initial amounts financed as detailed in footnote 5, Table 1, page 4).</p> <p>Since the last report, two leases (one entered into under the 1991 agreement and one entered into under the 1996 agreement) have been paid off.</p> <p>In April 2003, the Board approved the use of master lease financing in the amount of \$325,000 for the Jack Trice Stadium exterior stair replacement project at Iowa State University. Since the lease has not been executed, the amount is not included in Table 1, page 5.</p>

Background:

The Board has utilized the master lease concept since July 1985. Since November 1991, the master lease program has operated through Wells Fargo (previously known as Norwest Investment Services).

Current Agreement The current master lease agreement, which provides that principal of up to \$20 million may be outstanding at any one time for leased property, became effective January 1, 2002; the agreement is for an initial two-year period with a provision to renew for one additional, three-year period upon mutual consent.

The Regents hold title to the leased real and personal property while Wells Fargo holds a first lien security interest; the extent of Wells Fargo's security interest is reduced as the principal is paid.

Advantages The lease financing option offers certain advantages for financing necessary and essential property.

- Leases do not have the high origination costs of small bond issues that result from establishment of bond reserve funds, underwriter discounts, and issuance expenses.
- The negotiation of lease financing terms and amortization schedules allows lease payments to be better matched with available cash flows.

Interest Rate The interest rate formula under the Wells Fargo current agreement sets the rate at .82% over the "A" rated tax-exempt municipal bond yield for a ten-year lease, rising to a spread of 1.74% for a four-year lease; the spread is reviewed annually and may be adjusted downward to reflect market conditions.

Vendor-Financed The Regent Policy Manual §7.04 also provides that the institutions may execute vendor-financed leases or installment purchase agreements. Agreements in excess of \$250,000 for the universities and \$25,000 for the special schools are approved by the Executive Director and reported to the Banking Committee.

Reporting Requirements Iowa Code §8.46 requires notification to the Legislative Fiscal Bureau of any lease-purchase or installment acquisition arrangement totaling \$50,000 or more at least thirty days prior to entering into the contract. A copy of this report is routinely sent to the Legislative Fiscal Bureau.

Analysis:

2002 Agreement The following table summarizes the amount financed and the amount outstanding as of May 31, 2003.

	Amount Financed <u>(\$ millions)</u>	Amount Outstanding as of 5/31/03 <u>(\$ millions)</u>
SUI	\$0.70	\$0.70
ISU	<u>1.00</u>	<u>0.91</u>
Total	\$1.70	\$1.61

Leases entered into include:

- Purchase of property at 2421 James Street, Coralville, IA for the University of Iowa (\$700,000).
- Scoreboard and video display system at Jack Trice Stadium at Iowa State University (\$1,000,000); and

1996 Agreement The following table summarizes the amounts financed and the amounts outstanding as of May 31, 2003.

	Original Amount Financed <u>(\$ millions)*</u>	Amount Outstanding as of 5/31/03 <u>(\$ millions)</u>
SUI	\$ 6.59	\$2.62
ISU	2.89	.37
UNI	<u>2.90</u>	<u>---</u>
Total	\$12.38	\$2.99

*As noted in Table 1, page 5, the total sum financed includes the refinanced amounts for all leases. The original amounts financed are in the footnotes.

Since the last report in October 2002, the amount outstanding under the agreement declined from \$5.33 million to \$2.99 million as principal payments were made and leases paid off.

The University of Northern Iowa paid off, ahead of schedule on May 1, 2003, its lease for the Lucent Telecommunications System. The last payment had been scheduled for May 1, 2004.

1991 Agreement Iowa State University paid off its 1994 lease for a scoreboard for Jack Trice Stadium; this scoreboard was replaced by the new scoreboard financed under the 2002 Agreement.

Vendor-Financed Agreements Prior to revisions to the Policy Manual, agreements in excess of \$100,000 for the universities and \$10,000 for the special schools were reported to the Banking Committee. The current, reporting threshold is \$250,000 for the universities and \$25,000 for the special schools.

Iowa State University has one vendor-financed agreement in excess of \$250,000.

- This agreement, in the original amount of \$378,000, is with US Bank for the College of Design Computer Lease Program for the computers put into use beginning with the fall 2002 semester.

Special Schools The special schools do not have any outstanding leases under the master lease agreements or any vendor-financed agreements in excess of \$25,000.

TABLE 1
Outstanding Obligations
Master Lease Agreement
As of May 31, 2003

<u>Institution</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Lessor</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Purpose/Explanation</u>
<i>University of Iowa</i>							
	09/98	11/03	Wells Fargo	\$ 468,989 ¹	\$ 47,372	5.13%	Hydraulic Research Modeling F
	09/98	05/08	Wells Fargo	3,476,171 ²	1,923,653	5.18%	Laundry Replacement Facility
	12/98	11/03	Wells Fargo	524,000	57,906	4.83%	Equipment/Furnishings - Divisic
	08/01	11/04	Wells Fargo	1,336,062 ³	589,827	4.56%	Equipment/Furnishings - Unive
	04/03	05/08	Wells Fargo	<u>700,000</u>	<u>700,000</u>	3.63%	Purchase of Property - 2421 Ja
			SUI Subtotal:	\$ 6,505,222	\$ 3,318,758		
<i>Iowa State University</i>							
	07/97	05/07	Wells Fargo	170,000	79,021	5.78%	Swine Building
	11/97	11/03	Wells Fargo	990,000	94,979	5.36%	Biomass Energy Conversion Fa
	08/98	05/04	Wells Fargo	510,000	95,042	5.21%	Anaerobic Digester
	07/99	05/09	Wells Fargo	189,000	- ⁴	5.48%	Live-Fire Simulator
	07/00	11/10	Wells Fargo	127,000	102,931	5.63%	Lakeside Laboratory Housing
	07/02	05/12	Wells Fargo	<u>1,000,000</u>	<u>914,768</u>	5.06%	Jack Trice Video Scoreboard
			ISU Subtotal:	\$ 2,986,000	\$ 1,286,741		
<i>University of Northern Iowa</i>	-----	-----	-----	\$ -	\$ -	-----	No outstanding Master Lease c
<i>Iowa School for the Deaf</i>	-----	-----	-----	\$ -	\$ -	-----	No outstanding Master Lease c
<i>Iowa Braille and Sight Saving School</i>	-----	-----	-----	\$ -	\$ -	-----	No outstanding Master Lease c
			Subtotal:	7,791,222 ⁵	2,990,731		1996 Wells Fargo Master Lease Agreeme
			Subtotal:	<u>1,700,000</u>	<u>1,614,768</u>		2002 Wells Fargo Master Lease Agreeme
			Total:	\$ 9,491,222	\$ 4,605,499		

¹ The Hydraulic Research Modeling Facility was financed in the amount of \$559,000 under the 1991 Wells Fargo Master Lease Agreement in November 1996 and refinanced under the 1996 Agreement in September 1998 in the amount of \$468,989.

² The Laundry Replacement Facility was financed under the 1996 Master Lease Agreement in January 1997 in the amount of \$3.8 million and refinanced in the amount of \$3,476,171 in September 1998.

³ Equipment and furnishings for the University Services Building were financed under the 1996 Master Lease Agreement in November 1999 in the amount of \$1.8 million and refinanced in the amount of \$1,336,062 in August 2001.

⁴ State Department of Public Safety and Board of Regents have entered into a 28E agreement regarding payment of the outstanding obligation for the trailer; Department of Public Safety is making payments directly to Wells Fargo.

⁵ The total amount financed under the 1996 Master Lease Agreement was \$12,378,989 which includes the initial amount of the leases for the SUI Laundry Replacement Facility (\$3.8 million), SUI University Services Building Equipment and Furnishings (\$1.8 million), and the UNI Lucent Telecommunications System (\$2.9 million); the latter h

TABLE 2
Outstanding Obligations
Additional Leases over \$250,000
As of May 31, 2003

<u>Institution</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Lessor</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Purpose/Explanat</u>
<i>Iowa State University</i>	07/02	07/05	U.S. Bank	378,000	378,000	5.20%	Lap Top Compute