MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Preliminary Resolution for the Sale of up to $4,400,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2003A

Date: June 12, 2003

Recommended Action:

Recommend that the Board adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to $4,400,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2003A.

Executive Summary:

The Banking Committee is requested to recommend that the Board adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to $4,400,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2003A.

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.

All outstanding bonds of the Academic Building Revenue Refunding Bonds, Series U.N.I. 1993 (originally issued in the amount of $6,520,000) would be called.

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.

If the Series 2003A bonds were to be sold in July as envisioned, the 1993 bonds would be called on September 1, 2003, meeting the requirements for a current refunding.

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 $375,000 and $330,000, 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.

<u>Background</u>:

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

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 (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 series 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 size of the refunding bond issue would not exceed $4,400,000, with an anticipated size of $4,225,000 including issuance costs estimated at approximately $30,000.
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. If the refunding bonds are sold in July, they 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. A copy of the resolution authorizing the Executive Director to fix the date or dates for the sale of the bonds, which was prepared by Ahlers Law Firm and reviewed by Springsted, Inc. is available from the Board Office. The resolution includes a provision permitting the Board to receive 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 the electronic bidding procedures.