MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Preliminary Resolution for the Sale of up to $7,100,000 Recreational Facility Revenue Refunding Bonds, Series I.S.U. 2004

Date: March 1, 2004

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 3) authorizing the Executive Director to fix the date or dates for the sale of up to $7,100,000 Recreational Facility Revenue Refunding Bonds, Series I.S.U. 2004.

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 $7,100,000 Recreational Facility Revenue Refunding Bonds, Series I.S.U. 2004.

The bond issuance schedule for calendar year 2004 adopted by the Board in November 2003, included no planned sales in April. The November memorandum noted that the schedule provided flexibility to undertake refundings in April if interest rates were favorable.

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.

The proposed refunding would be a current refunding, as the call date for the outstanding bonds is July 1, 2004.

All outstanding bonds of the Recreational Facility Revenue Refunding Bonds (originally issued in the amount of $13,060,000) would be called and principal payments made on July 1, 2004.

Debt service payments on the bonds are made from student fees and funds from the Department of Intercollegiate Athletics.

The estimated net future value and net present value savings from the refunding total approximately $380,000 and $350,000, respectively.

The maturity schedule for the bonds would not change with the refunding; the last maturity would be July 1, 2010.

Interest on the refunding bonds would be exempt from federal and state taxes (double tax-exempt) for individuals 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.

As interest rates decline, bonds can be refunded and annual and total debt service costs reduced.

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.

Statutory Provisions

Under the provisions of Iowa Code Chapter 262, the Board is authorized to construct, equip, maintain and operate self-liquidating and revenue producing facilities at the universities; the Board is also authorized to borrow money to construct or improve these facilities.

The University's Recreational System is a self-liquidating facility.

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 Recreational Facility Revenue Refunding Bonds, Series I.S.U. 1994.

The 1994 refunding bonds were issued as advance refunding bonds (before the call date) and refunded the callable bonds (1998 - 2009 maturities) of the Board's Recreational Facility Revenue Bonds, Series I.S.U. 1987.

- The 1987 bonds were issued in the amount of $14,690,000 to finance construction of a combined recreation/athletic facility; this facility is currently known as the Lied Recreation / Athletic Center.

The 1994 bonds become callable on July 1, 2004, without payment of any call premium.

The principal of the 1994 bonds to be refunded totals $6,790,000.

Coupon (interest) rates on the outstanding 1994 Series Bonds range from 4.4% in 2005 to 4.6% in 2010.

- Current interest rates for bonds maturing in the same years are significantly lower.

Debt Service on Bonds

Debt service on the bonds is paid with a portion of the University's mandatory building fee and funds from the Department of Intercollegiate Athletics.

Student fees collected for the Recreational Facility totaled $876,646 for FY 2003 according to the bond fund audit; the amount was based on a student fee of $30.50 for the academic year and $15.25 for the summer session.

In May 2003, the Board allocated the sum of $30.50 of the student's mandatory building fee of $106 for the 2003 - 2004 academic year to the Recreational Facility. (The allocation for the summer is $7.63 of the $26.50 building fee.)

At its November 2003 meeting, the Board approved a mandatory building fee of $106 for the 2004 - 2005 academic year; this fee is scheduled to be allocated among facilities at the May 2004 Board meeting.

Under the bond resolution adopted when the 1987 bonds were issued, the Department of Intercollegiate Athletics is to transfer an amount equal to 32.5% of the interest due on the next interest payment date and 16.25% of the bond principal maturing on the next principal payment date.

- Before these amounts are calculated, interest income from the invested funds is credited toward the sinking fund obligation.
- The Department of Intercollegiate Athletics has budgeted $425,000 for FY 2004 for its share of the debt service payments. After the interest income is credited, the Department's costs will total approximately $400,000.

Refunding Bond Issue

The size of the refunding bond issue would not exceed $7,100,000, including issuance costs estimated at approximately $38,300.

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 May and the refunded bonds would be called on July 1, 2004 (first call date), 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.