

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Preliminary Resolution for the Sale of up to \$14,800,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2002

Date: March 4, 2002

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 13) authorizing the Executive Director to fix the date or dates for the sale of up to \$14,800,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2002.

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 \$14,800,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2002.

The calendar year 2002 bond issuance schedule approved by the Board in November 2001 included the refunding in April of the University of Iowa Academic Building Revenue Bonds, Series 1992 should interest rates remain low.

Interest rates have remained low and the Board's financial advisor (Springsted) and bond counsel (Ahlers Law Firm) recommend proceeding with the refunding.

The refunding would be a current refunding, as the call date for the outstanding bonds is July 1, 2002. All outstanding bonds of the 1992 Series would be called and principal payments made on July 1, 2002.

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 and present value savings from the refunding in future tuition replacement appropriations between 2003 and 2015 total \$1.9 million and \$1.4 million, respectively.

Background:

Interest Rates	<p>Bond coupon rates and the net interest rate for Regent bonds are very dependent upon market conditions at the time of issuance.</p> <p>The net interest rate for Academic Building Revenue Bonds (including refunding bonds) issued since 1971 has ranged from a low of 4.47% in 1998 to a high of 11.19% in 1981.</p> <p>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.</p>
Tuition Replacement Appropriations	<p>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.</p> <p>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.</p>
Definition of Refunding	<p>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.</p>

Analysis:

Bonds to be Refunded	<p>The proceeds from the sale of the proposed bonds would be used to refund bond principal of the Board's Academic Building Revenue Bonds, Series S.U.I. 1992 in the amount of \$14,490,000.</p> <p>Coupon rates on the outstanding 1992 Series Bonds range from 5.6% in 2003 to 6.2% in 2015.</p> <p>Current interest rates for bonds maturing in the same years are significantly lower.</p>
Internal Revenue Service Requirements	<p>Under Internal Revenue Service regulations, a current refunding must occur no more than 90 days prior to the payment of the refunded bonds.</p> <p>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.</p>