

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Resolutions for the Sale and Award of \$21,575,000 Dormitory Revenue Bonds, Series I.S.U. 2003

Date: March 3, 2003

Recommended Action:

Recommend that the Board adopt the following resolutions (see G.D. 15), subject to receipt of acceptable bids:

1. A Resolution providing for the sale and award of \$21,575,000 Dormitory Revenue Bonds, Series I.S.U. 2003, and approving and authorizing the agreement of such sale and award.
 2. A Resolution authorizing and providing for the issuance and securing the payment of \$21,575,000 Dormitory Revenue Bonds, Series I.S.U. 2003, for the purpose of constructing, furnishing and equipping a residence hall and related facilities and making other necessary improvements to existing residence halls and related facilities, all located on the campus of the University, including funding the debt service reserve fund, and paying the costs of issuance of the Bonds.
-

Executive Summary:

The Banking Committee is requested to recommend that the Board adopt two resolutions related to the sale and award and issuance of \$21,575,000 Dormitory Revenue Bonds, Series I.S.U. 2003.

At its January 2003 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to construct a second, four-story, suite-style residential facility. This facility would be the first component of the Residence System, Phase II Plan.

Principal on the bonds would be repaid over a period of 25 years, with debt service of approximately \$1.5 million annually to be paid from the net rents, profits and income of the entire Residence System.

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

The University's Residence System is a self-supporting operation and receives no state appropriations.

Background:

Statutory Provisions

Under the provisions of Iowa Code §§262.55 to 262.66, the Board is authorized to construct, equip, improve, repair, remodel, operate, and maintain residence halls and dormitories, including dining and other incidental facilities, at the universities.

The Board is further authorized to borrow money to finance the construction or improvements. The sources of repayment for any borrowing are the net rents, profits, and income from the operation of all residence halls, dormitories, dining, and incidental facilities, which are components of the Residence System.

Project

At its November 2002 meeting, the Board approved the schematic design and a revised project budget of \$19,992,000 for the Union Drive Suite Building 2 project.

The project would construct an 88,777 gross square foot facility to house 331 students in suite-style rooms.

Analysis:

Issue Size

The bond issue size of \$21,575,000 includes:

- project costs (estimated at \$19,992,000);
- debt service reserve (estimated at \$1,508,000); and
- issuance costs (estimated at \$75,000).

Parity Bonds Financial Test

Bonds ranking on a parity with outstanding bonds may be issued if one of two financial tests is met.

One of the tests permits the inclusion of future revenues to be generated by the facilities to be constructed.

Under the provisions of this test, a certificate which shows that the Residence System can make the debt service payments while maintaining all requirements of the Dormitory Revenue Bond covenants needs to be filed with the Board.

The Certificate of the Financial Officer of the University, Warren R. Madden, is attached to this memorandum.

The Certificate includes a table (financial proforma plan) showing the net revenues of the Residence System available for debt service in the first two years after completion of the facilities to be constructed with the bond proceeds.

A report of the State Auditor, who completed the last audit of the Residence System, commenting upon the assumptions used in projecting the revenues of the System is included in the Regent Exhibit Book.

Outstanding Bonds As of June 30, 2002, the outstanding principal for the University's Dormitory Revenue Bonds was \$114.2 million.

Receipt of Bids The receipt and opening of bids is scheduled for 10:00 a.m. on Wednesday, March 12, 2003, and the award is scheduled for 11:30 a.m. on the same date.

A representative of Springsted, Inc., will report on the bids received and make a recommendation to the Board for award of the bonds.

Resolutions Copies of the resolutions, which were prepared by Ahlers Law Firm and reviewed by Springsted, Inc., are available from the Board Office.

Bond Specifics

Average Maturity:	16.56 Years
Bonds Dated:	April 1, 2003
Interest Due:	January 1, 2004 and July 1 and January 1 to maturity
Interest Exemption:	Exempt from federal and state taxes for individual purchasers
Principal Due:	July 1, 2005 – 2029
Optional Call:	Bonds maturing on or after July 1, 2014 are callable commencing July 1, 2013 and any date thereafter at par
Denomination:	\$5,000 and integral multiples thereof