MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Preliminary Resolution for the Sale of up to $23,300,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001A and 2001B

Date: March 19, 2001

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 $23,300,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001A and 2001B.

Executive Summary:

During the past few weeks as interest rates have fallen, the Board Office, Springsted, Inc., the Board's financial advisor, and Ahlers Law Firm, the Board's bond counsel, have reviewed the feasibility and cost effectiveness of refunding any of the outstanding Academic Building Revenue Bond issues.

The 1990 and 1991 Iowa State University bond issues have been identified as having the largest possible savings from a refunding. Coupon rates on the outstanding 1990 bonds range from 6.0% in 2002 to 6.4% in 2013, with coupon rates on the outstanding 1991 bonds ranging from 5.8% in 2002 to 6.15% in 2015. Current interest rates for bonds maturing between 2002 and 2015 are significantly lower.

The refunding of these bonds would be a current refunding, as the call date for the outstanding bonds is July 1, 2001. All outstanding bonds of the 1990 and 1991 series would be called and principal payments made on July 1, 2001.

The Banking Committee is being asked to recommend to the Board that it adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to $23,300,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001A and 2001B. The Series I.S.U. 2001A would refund the 1990 Series bonds and the Series 2001B would refund the 1991 Series bonds. The sale would take place at the April 2001 Board meeting.

The bond issuance schedule approved by the Board in November 2000 did not include any sales in April 2001 so the refunding would not displace any currently scheduled sales.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue. The net and present value savings from the refundings in future tuition replacement appropriations between 2002 and 2015 total $3.1 million and $2.4 million, respectively.

Background and Analysis:

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 4.47% in 1998 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 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.

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 I.S.U. 1990 in the amount of $9,750,000 and Series I.S.U. 1991 in the amount of $13,380,000. The last maturity for the 1990 bonds is 2013, with the last maturity for the 1991 bonds in 2015.

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.

The refunding would be a current refunding, as the call date for both the 1990 and 1991 series bonds is July 1, 2001. Under the bond covenants, a current refunding must occur no more than 90 days prior to an interest or principal payment date. These dates are July 1st (principal and interest) and January 1st (interest).

Copies 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. are available upon request.