

**MEMORANDUM**

**To:** Banking Committee

**From:** Board Office

**Subject:** Resolution Authorizing the Executive Director to Effect the Issuance of up to \$7,975,000 University of Iowa Facilities Corporation Revenue Bonds (Medical Education and Biomedical Research Facility Project), Series 2002

**Date:** May 6, 2002

**Recommended Action:**

Recommend that the Board adopt A Resolution (see G.D. 4) authorizing the Executive Director to take any and all action deemed necessary to effect the issuance of not to exceed an aggregate principal amount of \$7,975,000 University of Iowa Facilities Corporation Revenue Bonds (Medical Education and Biomedical Research Facility Project), Series 2002.

**Executive Summary:**

Request	The Banking Committee is requested to recommend that the Board adopt a resolution authorizing the Executive Director to take action needed for the issuance of not more than \$7,975,000 University of Iowa Facilities Corporation Revenue Bonds for the University of Iowa College of Medicine Medical Education and Biomedical Research Facility (MEBRF) project.
Purpose	The bonds would be sold to provide funds to complete the cost of constructing, improving, expanding and equipping the Facility.
Schedule	The calendar year 2002 bond issuance schedule, approved by the Board in November 2001, included a sale by the University of Iowa Facilities Corporation in June 2002.
Facilities Corporation	The University of Iowa Facilities Corporation was incorporated in 1967 as a not-for-profit supporting organization of the University of Iowa Foundation to assist in maintaining, developing, increasing, and extending the facilities and services of the University.
Internal Revenue Service Rulings	Although the bonds are being issued by the Corporation, they are deemed by Internal Revenue Service rulings to be issued "on behalf" of the Board of Regents and the State of Iowa, meeting the requirements for tax-exemption of interest for federal (but not state) income tax purposes. The Board of Regents must therefore approve the sale and terms of the bonds.

**Bond Structure** The bond structure for the University of Iowa Facilities Corporation bond issue differs from the structure used for Board of Regents bonds.

- The Corporation will issue the debt and lease the facility to the Board for use by the University during the terms of the bonds.
- Upon retirement of the bonds, the facility will be conveyed to the University.

**Bonds** The last maturity of the bonds to be issued will be June 1, 2023. Debt service of approximately \$628,000 annually will be paid from lease rentals, which will be paid by the University to the Facilities Corporation under the terms of the lease.

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**Background:**

**History** In May 1996, the Board granted the University permission to proceed with project planning for the Health Sciences Campus Capital Plan.

In June 1997, the Board approved the schematic designs and project descriptions and budgets for a number of components of the Plan, including the MEBRF.

The Board approved revised budgets for the MEBRF in December 1998 and June 2001.

**Financing** In August 1998, the University of Iowa Facilities Corporation issued \$22,250,000 of revenue bonds to help finance the MEBRF Extended Project (Project).

For the purposes of the bond issue, the Project was defined as including demolition, site preparation, including relocation and extension of underground utility distribution systems, and site development costs in addition to construction of the facility.

The Official Statement also noted that, as a result of the Project, the University would incur additional costs for relocation of facilities for College of Medicine occupants of the former Steindler building and facility equipment and furnishings.

Additional bonds (Series 2000 and Series 2000A) totaling \$28 million were sold for the project in September 2000.

The estimated total cost of the Project is \$98 million.

In addition to the Facilities Corporation Bonds, other sources of funding for the Project include \$27 million in State capital appropriations authorized by the 1997 General Assembly; Utility System Bonds; and University / College of Medicine Gifts and Earnings.

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

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**Analysis:**

Rationale	<p>In the sales of the Series 1998, 2000 and 2000A Facilities Corporation bonds, provision was made for additional bonds to complete the Project.</p> <p>Proceeds of the additional bonds, net of issuance costs and reserves, and gift moneys in hand available for the purpose will complete the Project financing and will cover the \$2.8 million increase in the final cost and the funds required to be maintained as reserves.</p>
Lease Obligations	<p>The University's 1998 and 2000 lease obligations with the Corporation are absolute and unconditional obligations of the University of Iowa. Lease payments are to be sufficient to pay the interest and principal on the bonds; supplemental rents are equal to administrative and trustee expenses.</p> <p>The 2002 lease obligation would be similar.</p>
Outstanding Bonds	<p>Bonds issued to date for the Medical Education and Biomedical Research Facility Extended Project total \$50.3 million; principal outstanding as of May 1, 2002, is \$48.7 million.</p>
Bond Insurance	<p>The 1998 and 2000 bonds were insured by a municipal bond insurance policy issued by Ambac Assurance Corporation; the policy insures the payment of principal and interest to the bondholders.</p> <p>The bonds had the highest rating from the credit rating agencies, Moody's Investors Service and Standard and Poor's; this rating produced an interest rate reduction sufficient to offset the policy premium.</p> <p>The use of insurance enhances the marketability of the bonds. The use of bond insurance was therefore more beneficial to these financings than for Board of Regents bonds which have recognized market acceptance. It is envisioned that insurance will be used for the 2002 issue.</p> <p>The use of insurance will be explored further before June with the Facilities Corporation Board of Directors, University of Iowa, the Board Office, and the Board's bond counsel and financial advisor.</p>
Issue Size	<p>While the preliminary resolution provides for an issue size not to exceed \$7,950,000, it is anticipated that the size will be \$7,715,000 including:</p> <ul style="list-style-type: none"><li>• Project costs (estimated at \$7,000,000);</li><li>• Debt service reserve (estimated at \$628,000)</li><li>• Issuance costs (estimated at \$48,000); and</li><li>• Bond insurance (estimated at \$39,000).</li></ul>

Resolution           The resolution authorizing the Executive Director to take action needed to effect the issuance 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 receipt of 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 electronic bidding procedures.

Sale Date            The bond sale and award would be scheduled in conjunction with the June Board meeting.

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