

BOARD OF REGENTS
BANKING COMMITTEE

April 18, 2001

The Banking Committee of the Board of Regents met on Wednesday, April 18, 2001, at the Iowa Braille and Sight Saving School, Vinton, Iowa.

Those present were:

Banking Committee members: Regents David Fisher (chair), Ellengray Kennedy, Roger Lande, David Neil and Owen Newlin.

Others in attendance were:

Institutional representatives: Mary Sue Coleman, Douglas True, Ann Madden Rice, Carol Senneff, Terry Johnson, Richard Seagrave, Warren Madden, Robert Koob, Eunice Dell, Tim McKenna, Gary Shontz, Luann Woodward;

Ken Haynie, Ahlers Law Firm;

Mark LeMay, Springsted;

Board Office: Frank Stork, Pamela Elliott, Joan Racki, Deb Hendrickson and Barb Briggie.

Regent Fisher called the meeting to order at 11:33 a.m.

APPROVE MINUTES OF THE MARCH 2001 BANKING COMMITTEE MEETING.

MOTION: Regent Neil moved to approve the minutes of the March 21, 2001, Banking Committee meeting, as written. Regent Newlin seconded the motion.
MOTION CARRIED UNANIMOUSLY.

SALE AND AWARD OF \$23,155,000 ACADEMIC BUILDING REVENUE REFUNDING BONDS, SERIES I.S.U. 2001A AND 2001B.

Mr. Haynie stated that 1990 and 1991 Iowa State University bond issues (\$9,805,000 Series 2001A and \$13,350,000 Series 2001B) were identified as having the largest possible savings from a refunding during a recent review by the Board Office, the Board's financial advisor, and the Board's bond counsel. Coupon rates on the outstanding 1990 bonds range from 6.0 percent in 2002 to 6.4 percent in 2013, with coupon rates on the outstanding 1991 bonds ranging from 5.8 percent in 2002 to 6.15 percent in 2015.

Mr. Haynie said the good news was that bids were received. The market is up from where it was expected to be last month. The bids came in the 4.60s instead of the 4.30s; however, the bids were pretty good overall and would provide a substantial savings. Bids were received from a syndicate led by Solomon Smith Barney. The bid for the first issue was for a true interest rate of 4.66968 percent. The bid for the second issue was for a true interest rate of 4.669912 percent.

Mr. LeMay referred to the Delphis Hanover index as of the previous day's closing and said the rates received for these bonds were at or below the expected interest rate for bonds rated AA3 by Moody's and A+ by Standard & Poor's.

Regent Fisher asked for the amount of savings. Mr. Haynie responded that the net savings in tuition replacement is approximately \$2.4 million. The net tuition replacement reduction in FY 2002 is approximately \$665,000 and the following year is approximately \$710,000. There will then be a gradual tapering off of the annual tuition replacement savings.

Regent Fisher said that was a substantial savings. Mr. Haynie agreed that it was a very good refund, just not quite as good as thought a month ago.

Regent Lande asked for Mr. Haynie's opinion as to how the 30 basis point jump squares with the impending one-half point cut in the prime in two weeks. Mr. Haynie said the prime is a very short-term rate. It is the long-term rates that the Regents are selling into with this type of transaction. He said the effect of the reduction in the prime is very delayed. Regent bonds are subject to the bond market's sense of whether there will be inflation.

MOTION:

Regent Lande moved to recommend that the Board adopt the following resolutions: (1) A Resolution providing for the sale and award of \$9,805,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001A and \$13,350,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001B, 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 \$9,805,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001A and \$13,350,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001B for the purpose of refunding (i) the 2002 through 2013

maturities of the \$12,500,000 Academic Building Revenue Bonds, Series I.S.U. 1990; and (ii) the 2002 through 2015 maturities of the \$17,240,000 Academic Building Revenue Bonds, Series I.S.U. 1991, presently outstanding and heretofore issued by the Board to defray costs of buildings and facilities on the campus of Iowa State University of Science and Technology. Regent Newlin seconded the motion. MOTION CARRIED UNANIMOUSLY.

PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$16,000,000 ACADEMIC BUILDING REVENUE REFUNDING BONDS, SERIES S.U.I. 1992.

Vice President True stated that the proceeds of the original bond issue, which it is proposed to refund, were used principally to finance the Pappajohn Business Building.

Mr. Haynie said this refunding would not result in quite as powerful a savings as the one just completed, but it was still a good refinancing. There should be well over 5 percent in interest savings. With this just-completed sale in mind, the Board's financial advisor will recalculate how to approach the University of Iowa refunding next month to position it for the maximum savings in the right years.

MOTION: Regent Kennedy moved to recommend that the Board adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$16,000,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2001. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.

SEMI-ANNUAL MASTER LEASE REPORT.

Associate Director Racki stated that the aggregate amount for all leased real and personal property financed under the current master lease agreement through Wells Fargo is limited to \$15 million. The Board approves each financing utilizing the master lease agreement and Wells Fargo must agree to lease the property. She said leases issued under the current master lease agreement total \$12.4 million as of March 31, 2001, leaving \$2.6 million of the \$15 million available for use. The institutions did not enter into any master lease agreements during the last six-month period.

University of Iowa officials indicated the possibility of using master lease financing within the next six months to acquire equipment for College of Medicine facilities at a total cost of \$4 million to \$5 million. Since borrowing of this amount would exceed the \$2.6 million available, Ahlers Law Firm has advised the Board Office that there should be a written, one-page agreement between the parties with a new aggregate, not-to-exceed amount at the time of the College of Medicine financing.

Associate Director Racki stated that the Board's current agreement with Wells Fargo terminates on December 1, 2001. A Request for Proposals for a new agreement will be issued later this year.

Regent Fisher asked if the \$15 million amount was sufficient. Associate Director Racki responded that the Board's bond counsel had suggested the Board might want to look at that issue in terms of the upcoming RFP issuance.

President Newlin asked how high the financing limit has ever been. Associate Director Racki said that, to her knowledge, \$15 million was as high as it has been.

Mr. Haynie noted that it also related to how one keeps "score". There was previously a \$15 million 5-year master lease agreement, under which a number of financings were accomplished. Those financings were refinanced into the current master lease agreement. He said the \$15 million amount relates to how much commitment was provided by Norwest; it was not necessarily a maximum ceiling. Mr. Haynie indicated that he believed Norwest would consider additional requests.

Regent Lande asked for clarification of the amount outstanding as of March 31, 2001. Mr. Haynie said \$15 million is the total amount of new issuance; credit is not given for what is paid down. The difference between the amount outstanding and the amount financed is what has been paid off in the 4-year period.

Regent Fisher asked why the master lease agreement was not structured to be an open line of credit. Mr. Haynie said the current structure is the one with which the bankers are comfortable.

Regent Fisher asked if a commitment fee is paid. Vice President True responded that such a fee is not paid.

Regent Lande stated that if the master lease was structured as a line of credit, there would be \$8 million available for use. From a user-friendly standpoint, he said a line of credit concept would be preferable.

Vice President Madden said it was not clear whether the bank would lock in the index rate if the agreement was open ended.

ACTION: Regent Fisher stated the Banking Committee received the semi-annual report on lease purchases under the master lease agreement, by general consent.

BOND ISSUANCE COSTS.

Associate Director Racki stated that this month's report included the issuance costs for the Iowa State University Dormitory Revenue Bonds sold in January 2001 to finance the construction of Union Drive – Suite Building 1, for which a construction contract was recently awarded.

ACTION: Regent Fisher stated the Banking Committee received the report on the issuance costs related to \$21,665,000 Dormitory Revenue Bonds, Series I.S.U. 2001A, by general consent.

REVENUE BOND FUND AUDIT REPORTS.

Vice President True stated that the University of Iowa receives a series of revenue bond audits throughout the course of the year.

President Newlin referred to the University of Iowa Hospitals and Clinics audit which addressed the agreement with the College of Medicine whereby the University of Iowa Hospitals and Clinics remits a percentage ranging from 25 percent to 60 percent of the University of Iowa Hospitals and Clinics adjusted operating income in excess of a certain amount. He asked what percentage was used to calculate that amount.

Mrs. Madden Rice said the formula provides that the first \$6 million is split 60/40. After that, 25 percent goes to the College of Medicine on the first \$10 million. She noted that formula has been in place for some years. Vice President True said it was a sliding formula as the operating margin increases.

Mr. Shontz discussed the audits for the University of Northern Iowa.

President Newlin asked how many years the University of Northern Iowa has received no comments on its bond fund audits. Mr. Shontz responded that it has been many years.

ACTION: Regent Fisher stated the Banking Committee received the Revenue Bond Funds audits for the fiscal year ended June 30, 2000, by general consent.

INTERNAL AUDIT REPORTS.

Director Elliott stated that the Banking Committee was unable to address the internal audits from the University of Northern Iowa and the status report of follow-up audits at its March meeting. Therefore, those were included this month with additional University of Northern Iowa internal audits and audits from the University of Iowa. She said the report reflected the current status of the follow-up audits, which were now sorted by university for easier identification. The University of Iowa internal auditors closed three original and two follow-up audits for University Operations and six audits for Hospital Operations. Internal auditors at the University of Northern Iowa closed one original and one follow-up audit. The Status of Internal Audit Follow-Up identified 24 internal audit reports that were previously presented to the Banking Committee, of which 15 still require follow-up. She said a significant number of audits have been closed during the past two months.

Regent Fisher said the report looked much better.

President Coleman commended University of Iowa Director of Internal Audit Carol Senneff, who had recently joined the University. Director Senneff has instituted some very good reforms. She gave Director Senneff kudos for bringing a professional attitude to the internal audit activities.

President Newlin noted that Iowa State University had three internal audits that would be closed in May.

Mr. McKenna stated that the University of Northern Iowa closed one of its follow-up audits. There were a couple of others which he had hoped to close, but there were still several items outstanding.

Director Senneff addressed the six outstanding internal audits at the University of Iowa. She said the internal audit of patient accounts, as indicated in the status report, was being approached in a slightly different manner because many of the factors had changed since the original audit was performed.

ACTION: Regent Fisher stated the Banking Committee, by general consent:
(1) Received the following internal audit reports:
UNIVERSITY OF IOWA — UNIVERSITY OPERATIONS:

Cash Collection Activities
Human Resources Software Access Security
NCAA Compliance Audit
NCAA Compliance Audit – Financial Aid
UNIVERSITY OF IOWA — HOSPITAL OPERATIONS:
Allowances for Doubtful and Indigent Accounts
Faculty Practice Plan Allowance for Doubtful and
Indigent Accounts and Allowance for Contractual
Adjustments
UNIVERSITY OF NORTHERN IOWA:
Camp Adventure™ Youth Services
North American Review
Renaissance Group
(2) Received the report on the Status of Internal
Audit Follow-up.

SELECTION OF THE BOARD'S BOND COUNSEL.

Director Elliott stated that, in December, RFPs were brought to the Board for bond counsel, financial advisor and arbitrage rebate services. Two responses were received to the RFP for bond counsel. A committee, chaired by Regent Lande, interviewed the candidates.

Regent Lande stated that the bond counsel interview committee had met ten days previous in Des Moines to hear presentations by the Ahlers Law Firm and the Dorsey and Whitney Law Firm. He disclosed that he had worked with Mr. Haynie as a member of the Board of Regents, and with representatives from the Dorsey firm on a number of non-public bond issues. He has a high opinion of both firms. The committee interviewed each firm for quite a period of time and then the committee members deliberated among themselves. In the final analysis, the decision was to select Ahlers because the universities have worked very well with Ahlers representatives. In recommending the Ahlers Law Firm, Regent Lande said the Dorsey Law Firm had also made a good presentation.

MOTION: Regent Lande moved to recommend to the Board that the Ahlers Law Firm be retained as the Board's bond counsel. Regent Kennedy seconded the motion. **MOTION CARRIED UNANIMOUSLY.**

Regent Fisher stated that the Banking Committee looked forward to working with

Mr. Haynie and his associates for several more years. He then thanked Regent Lande for taking the time to assist in this effort.

ADJOURNMENT.

Regent Fisher referred to a recent audit report of the State Auditor which included a combined statement of current funds. The report shows the University of Iowa health care units with \$423 million in revenues and \$434 million in expenditures. He asked for comment about those figures.

Mrs. Madden Rice said she had not seen the report. Director Elliott said the reports to which Regent Fisher referred would be presented to the Banking Committee in June. In the interim, the Board Office will work with University officials to address the matter which Regent Fisher had brought up.

Mrs. Madden Rice said it was most likely a difference between cash and accrual accounting. She assured the Banking Committee members that the University of Iowa Hospitals and Clinics is not operating at a deficit.

Regent Fisher said that, in the report, it appeared there was a net increase in fund balance for the three Regent universities of nearly \$21 million. He asked if that could be broken down and allocated to each university. Vice President Madden said some of the issues involve accrual accounting and changing of accounting standards. There is a great deal of effort to reconcile the University's books with the report of the State Auditor's staff.

Regent Fisher stated that the State Auditor's report was what the public would be seeing. On page 24 of the report was listed revenues and expenses. He asked that there be a follow up and explanation of some of the issues.

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The meeting of the Regents Banking Committee adjourned at 12:11 p.m. on
April 18, 2001.

Pamela M. Elliott
Director, Business and Finance

Frank J. Stork
Executive Director

bb/f.winword/401bank