

BOARD OF REGENTS  
BANKING COMMITTEE

October 15, 2003

The Banking Committee of the Board of Regents met on Wednesday, October 15, 2003, at the University of Iowa, Iowa City.

Those present were:

Banking Committee members: Regents Amir Arbisser (chair), Mary Ellen Becker, Robert Downer, John Forsyth, David Neil and Owen Newlin.

Others in attendance were:

Board of Regents member Sue Nieland;

Institutional representatives: David Skorton, Doug True, Donna Katen-Bahensky, Mike Finnegan, Carol Senneff, Cynthia Bartels, David Dobbins, Steve Flagel, Terry Johnson, Gregory Geoffroy, Warren Madden, Brad Dye, Joan Thompson, Robert Koob, Tom Schellhardt, Gary Shontz, Jeanne Prickett, Jim Heuer, Dennis Thurman, Luann Woodward;

Barry Fick, Springsted, Inc.;

Ed Bittle, Ahlers law firm;

David Vaudt, Dustin Blythe and Andy Nielsen, State Auditor's office;

Board Office: Greg Nichols, Pamela Elliott, Charles Wright, Joan Racki, Deb Hendrickson, Sheila Doyle, Andrea Anania, Ilene Tuttle, Elaine Newell, and Barb Briggie.

Regent Arbisser called the meeting to order at 3:30 p.m.

**APPROVE MINUTES OF THE SEPTEMBER 2003 BANKING COMMITTEE MEETING.**

Regent Arbisser asked for additions or corrections to the minutes. There were none.

**ACTION:** Regent Arbisser stated the minutes of the September 16, 2003, Banking Committee meeting were approved, by general consent.

## **STATE OF IOWA AUDIT REPORTS.**

State Auditor Vaudt made brief comments about the statewide Comprehensive Annual Financial Report and how the Regent universities were combined. He also stated that there was a separate column for university funds.

State Auditor Vaudt then referred to the single audit report, and stated there were no materials weaknesses related to any of the Regent institutions' federal financial programs. There were no material instances of non-compliance with laws and regulations.

Regent Downer asked about the consequence of the following information provided in the meeting materials:

The Comprehensive Annual Financial Report presents the aggregated financial data for the state. In the FY 2002 report, the State Auditor noted that state appropriations from the Rebuild Iowa Infrastructure Fund were used for items inconsistent with the fund's legislatively established purpose.

State Auditor Vaudt responded that the State Auditor is required to report non-compliance with legislative funding purposes. In the case referenced above, funds were spent in different areas than what was intended. He stated that none of the instances of non-compliance were related to the Regent institutions.

Regent Neil asked why the non-compliance of a non-Regent institution would be included in the Regents' audit report. State Auditor Vaudt responded that the report is the comprehensive statewide audit report in which the Regents are included.

**ACTION:** Regent Arbisser stated the Banking Committee, by general consent, received the following State of Iowa audit reports for the fiscal year ended June 30, 2002: The Comprehensive Annual Financial Report (CAFR); and The Single Audit Report (SAR).

## **STATE AUDITOR REPORTS.**

State Auditor Vaudt addressed the separate audit reports that are issued for each of the universities and the special schools. He stated that each of those reports contained an unqualified opinion that the financial statements were fairly presented and there were no material weaknesses in internal control. He noted that each of the state audit reports

included a summary of non-significant comments to management of each of the institutions.

State Auditor Vaudt thanked the Regents who had worked with the State Auditor's office during the audits. He expressed appreciation for the working relationships that each institution and the Board Office have with his office.

Regent Arbisser referred to the table of auditor recommendations and management responses for the University of Iowa. He stated that, for an institution of the complexity and size of the University, there appeared to be very little that caught the auditors' attention. State Auditor Vaudt responded that was true for all of the Regent institutions and the Board Office.

State Auditor Vaudt noted there is no state law that requires separate complete financial statements for the special schools. He said his office requested direction from the Banking Committee in that regard.

**MOTION:**

Regent Newlin moved to (1) receive the following State Auditor's reports for the fiscal year ended June 30, 2002: University of Iowa, Iowa State University, University of Northern Iowa, Iowa School for the Deaf, Iowa Braille and Sight Saving School, Board Office; (2) request ISU to formulate legislative proposals for Board consideration to eliminate obsolete statutory provisions for two programs that no longer exist at the University; and (3) recommend the Board approve the cessation of complete financial audits for the two special schools. Regent Becker seconded the motion.  
**MOTION CARRIED UNANIMOUSLY.**

Regent Arbisser thanked State Auditor Vaudt for attending the meeting to present the audit reports.

**RESOLUTIONS FOR THE SALE AND AWARD OF \$6,750,000 REGULATED MATERIALS FACILITY REVENUE BONDS, SERIES ISU 2003.**

Vice President Madden presented the University's request that bonds be sold for the construction of Iowa State University's Regulated Materials Facility. He said the project will be funded through a combination of revenue bonds and existing revenues.

Mr. Fick stated that bonds would be sold the following day for this new self-liquidating facility. He expected strong response to the offering. Two bidders had indicated an interest in bidding. Confirmation of the University's ratings were confirmed by Moody's and Standard & Poor's. He said interest rates remain favorable.

Mr. Bittle stated that the two bond resolutions were in order.

**MOTION:** Regent Forsyth moved to recommend that the Board adopt the following resolutions, subject to receipt of acceptable bids: (1) A Resolution providing for the sale and award of \$6,750,000 Regulated Materials Facility Revenue Bonds, Series I.S.U. 2003, and approving and authorizing the agreement of such sale and award. (2) A Resolution establishing a self-liquidating and revenue-producing facility and authorizing and providing for the issuance and securing the payment of \$6,750,000 Regulated Materials Facility Revenue Bonds, Series I.S.U. 2003, to pay the costs of constructing, furnishing, and equipping a regulated materials facility, including the debt service reserve fund, and paying costs of issuance. Regent Neil seconded the motion.  
**MOTION CARRIED UNANIMOUSLY.**

**RESOLUTIONS FOR THE SALE AND AWARD OF \$7,790,000 ACADEMIC BUILDING REVENUE BONDS, SERIES ISU 2003.**

Vice President Madden presented Iowa State University's request that Academic Building Revenue Bonds be sold to replace interim financing for the Iowa State University Engineering and Teaching Research, Phase II project.

Mr. Fick stated that the rating agencies had confirmed the University's rating for this bond sale. He anticipated favorable interest rates.

Mr. Bittle stated that the two resolutions for adoption were in order.

**MOTION:** Regent Downer moved to recommend that the Board adopt the following resolutions, subject to receipt of acceptable bids: (1) A Resolution providing for the sale and award of \$7,790,000 Academic Building Revenue Refunding 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 \$7,790,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2003, for the purpose of refunding the \$7,000,000 Academic Building Revenue Project Notes, Series I.S.U. 2002, dated August 1, 2002, presently outstanding and heretofore issued by the Board to defray costs of building construction projects on the campus of Iowa State University of Science and Technology, including the debt service reserve fund, and paying costs of issuing the Bonds. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.

**PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$14,000,000 UTILITY SYSTEM REVENUE BONDS, SERIES ISU 2003.**

Vice President Madden presented the University's request that bonds be sold to replace an existing 3 megawatt turbine generator, installed in the power plan in 1948, with a new 15 megawatt turbine generator. He said there was a very cost-effective pay-back period, the project was sound, and the bonds will be financed fully through utility charges.

Regent Downer asked what portion of the power used at Iowa State University is purchased and what portion is internally generated. Vice President Madden responded that those decisions are made depending on the market price. When electricity can be purchased less expensively than it can be generated, the University buys electricity. Currently, the cost of coal to generate electricity is substantially lower; therefore, the University is buying little electricity. He noted that the University's electric load keeps growing. Today, electricity is the most-consumed energy source. However, that was not the case when he came to Iowa State University.

Regent Downer asked what portion of the University's electrical needs the University would be capable of generating, assuming it is cost effective to do so, when the new generator comes on line. Vice President Madden responded that the University will have the capacity to generate its complete load. The University needs to have a 15 percent reserve in order to connect to the grid. He noted that the University sells power occasionally when there is a demand for power. The University is currently able to buy coal at very stable, low prices.

Regent Arbisser asked for the implications for the University's own generating capability when there is a blackout, as recently occurred in the eastern United States. Vice President Madden responded that the University would get off the grid and continue to operate on its own.

Regent Neil noted that the city of Ames has a garbage generator. He asked how that system is working. Vice President Madden responded that the system is working well. All of the University's solid waste and garbage goes to the City's plant. The garbage is then mixed with coal to generate electricity. He stated that the Ames plant was one of the first projects of its kind in the country. The city of Ames has not raised electric rates to its customers for over 20 years. Iowa State University contributes about 25 percent of the garbage and trash to the system, which is reflected in its rates.

Regent Neil asked why the University would not create that type of system itself. Vice President Madden responded that it was more cost effective for the University to be a part of the city's program. He said the plant is expensive to operate, but if the economic parameters indicated that it may be beneficial to consider this option, University officials certainly would do so. He noted that the Ames plant has attracted trash from central Iowa, which has reduced the landfill needs.

Regent Forsyth expressed appreciation for the University provided information on the return on investment. He asked if the 15.9 percent internal rate of return on investment included the cost of money.

Vice President Madden responded that he did not believe that the figure included the cost of money. He said the estimated cost of money at the borrowing rate was used, noting this was a conservative calculation. Associate Director Racki stated that 5 percent was the estimated cost of money.

MOTION: Regent Forsyth 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 \$14,000,000 Utility System Revenue Bonds, Series I.S.U. 2003. Regent Downer seconded the motion. MOTION CARRIED UNANIMOUSLY.

**PRELIMINARY RESOLUTION FOR THE SALE OF UP TO \$14,500,000  
TELECOMMUNICATIONS FACILITIES REVENUE BONDS, SERIES SUI 2003.**

Regent Arbisser noted that the Banking Committee was being presented with back-to-back requests for bond sales in the \$14 million range. He stated it was his

understanding that, in the past, it was recommended that the Board not cross the "line" of \$25 million.

Mr. Fick pointed out that the resolutions included language of "up to" the stated sale amount, but the actual numbers would be below those amounts. Additionally, the sales are for two different universities and two different types of issues; therefore, different buyers will be attracted to the bonds.

Mr. Bittle stated that bonds would not be issued in December; therefore, there will be end-of-the-year demand.

Vice President Madden noted there was some flexibility on the sale dates, should it become necessary to move the date.

Associate Director Racki pointed out that a large portion of the telecommunications bonds are refunding bonds; therefore, this was not a matter of two new bond issues.

Vice President True suggested the two bond issues could produce an interesting competition regarding which university receives the best interest rates.

Vice President True stated that University of Iowa officials will be providing the Board with a comprehensive report about an opportunity for the University to convert a major portion of its coal-fired boilers to oat hulls that are produced in Cedar Rapids through an operation at Quaker Oats. He said it will be a great situation for Quaker Oats as well as for the University. The University will be able to buy fuel at 50-60 percent below the price of coal and produce a market for a Quaker Oats by-product, allowing Quaker Oats to mill whole oats. University officials will bring information about this economical and environmental opportunity to the Board in the near future.

Vice President True discussed the University of Iowa's proposed telecommunications bond sale. He said one portion is a refunding bond issue for economic savings. The other portion is a new money issue of approximately \$4 million to replace a switch that was originally purchased in 1985. In addition to the financing, he said the University is required to bring to the Board equipment purchases of over \$1 million. He noted that the University's telecommunications system is a self-liquidating enterprise which operates on a business-like basis within the University.

Vice President True introduced David Dobbins, Director of the University of Iowa's Information Technology Services, and Steve Fleagle, Director of Telecommunications and Network Services.

Director Dobbins described the switch element of the telecommunications operation, the purpose of replacing the switch, and how the switch fits into the University's overall telecommunications system. He addressed why the University is investing in the capital aspect of this business rather than acquiring services from a telephone firm. Besides the financial advantages of this transaction, he said University officials believe that providing services in house is a core business for the University; that it is essential to the academic and research enterprise.

Director Dobbins described the request for proposal (RFP) process that began more than a year ago. He said the RFP was structured to request services and/or equipment to attract vendors in either category.

Regent Becker asked for an explanation of what switching does. Director Dobbins responded that there is a series of switches around the campus. Switches take in large amounts of dial tones and distribute (switch) those around the campus. Economy of scale is achieved through this activity. The University has established a very competitive transaction price for the service.

Regent Becker stated that the Board members had just received a presentation about changeovers to a more mechanized system occurring at the University of Iowa Hospitals and Clinics. Assuming those changes will require even more capacity, were upgrade capabilities being built into the new system?

Director Dobbins responded that the current capacity is approximately 16,000 circuits and there will be 20,000 circuits capacity in the new system. University officials believe the new system provides capacity for growth, including technological growth.

Regent Forsyth commended University of Iowa officials for having a 1985 switch, which was technologically out of date. He then expressed disagreement with Director Dobbins' statement that video, voice, and data are part of the University's core business. He believes those activities are a key for success but are not a core business of the University.

Regent Forsyth stated that it would be helpful to receive information on the University's strategic communications plan. He said most institutions have telecommunications, voice communications and other components of communication data integrated under information technology.

Regent Forsyth said he was pleased to hear Director Dobbins report that an RFP for services and equipment was undertaken. He asked if it was an open RFP that invited service companies to come forward. Mr. Dobbins assured Regent Forsyth that service companies were engaged in the dialogue.

Regent Forsyth said it would be interesting to test the competitiveness of the University's pricing. For example, if the Hospital sought private services, would it have to pay more than it currently pays? Does the University have a vehicle through which it reviews prices over time? Since these are self-liquidating enterprises, does the University charge whatever it takes to self liquidate the enterprise? He said he would like to be assured that as the enterprise self liquidates, the charges are competitive.

In the area of utilities, it has been demonstrated that money can be saved over an extended period of time. One of the Regent universities' competitive advantages is that they burn coal in their power plants while other private entities generating electricity burn natural gas. Therefore, by definition, we have a competitive advantage. However, one of the utility companies is spending tens of millions of dollars to build a coal-generating facility.

Regent Forsyth suggested that when a telecommunications switch at a time is replaced, the University does not take a step back and determine where it should be as an institution.

President Skorton addressed the question of whether communications is a core mission of the University of Iowa. He agreed with Regent Forsyth that telephone voice service for the University per se is not a core mission of the University. He next addressed the enormous complexity of information technology at the University which includes, as one element, voice traffic. He said the estimation of how best to provide voice communications is somewhat complicated in Iowa by the presence of the state-owned Iowa Communications Network. A second element of information technology is the data requirements of the University, which are vastly different than almost any other contractor that a vendor would serve. For example, Iowa State University and the University of Iowa were among the first universities in the country to become part of Internet 2, which required different communications capabilities on campus. A third element of telecommunications is video. The fourth element of telecommunications is a whole host of other technologies, such as wireless, that are constantly challenging.

President Skorton stated that the University's information technology professionals and finance professionals consistently and repeatedly ask the questions posed by Regent Forsyth about the financial competitiveness and capabilities of providing telecommunications within the University versus going to the market. He agreed with Director Dobbins that information transfer is key to getting the University's job done.

President Skorton stated that University of Iowa officials will quickly develop a comprehensive review of the information technology strategies that are being used at the University of Iowa Hospitals and Clinics and across the campus. He said the review

will include the needs for enormously high-end capabilities, like Internet 2, as well as what is needed by the average professor.

President Skorton stated that, given the University's 20-year telecommunications strategy and in light of the market comparisons, receiving approval for the switch is critical to the institution.

Regent Forsyth stated that he would agree to the University's request based on his understanding of the University's telecommunications plan and based on the fact that University officials had looked at pricing and competitiveness.

**MOTION:** Regent Forsyth 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 \$14,500,000 Telecommunications Facilities Revenue Bonds, Series S.U.I. 2003. Regent Downer seconded the motion.

President Skorton stated that University officials will include the seldom occurring enormous projects such as laying fiber throughout the campus in the comprehensive review of information technology strategies.

President Geoffroy asked to follow up on an item mentioned by President Skorton, which was the requirement to use the Iowa Communications Network. He stated that using the Iowa Communications Network results in a significantly higher cost for the University's telecommunications than it would otherwise cost.

Regent Forsyth stated it would be helpful to document their positions regarding the costs of using of the Iowa Communications Network with the state and the legislature, in light of the continued round of budget cuts. He said the institutions need to be as cost effective as possible to be able to pay the faculty and the staff, to keep tuition as low as possible, and to have outstanding students. If money can be saved by not using the ICN, that should be part of the Board's lobbying efforts.

President Skorton suggested that, because of the upcoming legislative session, the institutions should work with the Board Office to develop a report of the ICN use, in a matter of weeks. Following the Iowa Communications Network report development, the more comprehensive review of information technology strategy could occur.

Regent Becker asked that the report on ICN usage include the Internet capability through the Iowa Communications Network and program delivery by the Iowa Communications Network. Outreach to citizens who cannot come to campus is offered

through use of the ICN. Perhaps there has been enough movement to video conferencing that the Iowa Communications Network is not utilized as much for program delivery. She asked that included in the report on the Iowa Communications Network be a review of what would be lost in distance education delivery if the Iowa Communications Network was not used for delivery.

VOTE ON THE MOTION:                   The motion carried unanimously.

### **COSTS OF BOND ISSUANCE.**

Associate Director Racki referred the Banking Committee members to the location within the meeting materials of the costs of July bond issuances. She stated the actual costs for the University of Iowa Facilities Corporation bond sale were within \$3.00 of the estimated cost.

Regent Arbisser asked the reason for the relatively high cost of issuing the smaller of the two bond sales (UNI Academic Building Refunding Bonds). Associate Director Racki responded that much of the reason is the rating agency cost.

Regent Arbisser stated that he would like an explanation of the \$20,000 charge by Moody's. Mr. Fick stated that, as frequent issuers, all three universities receive a discount off the standard rates. He said rating agency fees are significant. On an ongoing basis, the Board's bond advisors work with the rating agencies to reduce the costs to a more reasonable level.

ACTION:                                   Regent Arbisser stated the Banking Committee received the report on the issuance costs for the July 2003 bond sales, by general consent.

### **PLAZA CENTRE ONE REFINANCING.**

Vice President True stated that the University of Iowa Facilities Corporation borrowed money to finance the purchase of two floors and part of the basement of Plaza Centre One. The space is then leased to the University. The purpose of the arrangement was to minimize the use of expensive off campus leases. Another opportunity to save money was available by refinancing the existing taxable mortgage notes. Tax-exempt notes could not be issued at the time this property was purchased because a portion of the space was occupied by taxable entities. As the taxable entities have moved out of the space, the University has assumed the space for its uses, which also provides the opportunity to refinance with tax-exempt financing.

Regent Arbisser asked for a comparison of the cost per square foot for the University to purchase existing space off campus versus building space on campus. Vice President True responded that the Facilities Corporation paid \$60-65 per square foot for the Plaza Centre One space. To build equivalent space would cost \$130-140 per square foot. The University Services Building, recently built just four blocks off campus, cost over \$100 per square foot.

**MOTION:** Regent Neil moved to recommend that the Board adopt A Resolution 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 \$1,690,000 University of Iowa Facilities Corporation First Mortgage Notes (Plaza Centre One Building), Series 2003. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

### **REPORT ON THE FEASIBILITY STUDY FOR THE UNI PROPOSED EVENT COMPLEX.**

Vice President Schellhardt provided a PowerPoint presentation of the University of Northern Iowa's proposed Event Complex. The multi-purpose event center is budgeted at \$19.5 million, will seat approximately 6,100, will operate as part of a self-supporting enterprise, and will be connected to the UNI-Dome. He said the arena will transform the west campus into an environment that fosters excellence in community collaboration, Panther athletics, and health and education outreach.

The objectives at this meeting were to address planning issues identified at the July 2003 Banking Committee meeting, as follows:

- Provide updated fund-raising information
- Review the proposed loan agreement with the City of Cedar Falls
- Determine the allowable uses of the Fieldhouse surplus funds
- Receive the feasibility study report from C.H. Johnson Consulting

Vice President Schellhardt presented an update of fund-raising figures, and stated that University officials believe the amount needed to be raised has been reached. Pledges increased from \$14,379,000 on July 16, 2003, to \$16,100,000 on October 15, 2003.

With regard to the feasibility study of the business and finance plan to be performed by an external consultant, Vice President Schellhardt stated that, soon after the July Banking Committee meeting, a committee was formed for this purpose. An RFP was

prepared. Responses to the RFP were received from five consultants. As a result of interviews with the finalists, C.H. Johnson Consulting of Chicago was hired on August 29. On September 11, representatives of C.H. Johnson came to the University to begin the study. He then introduced Matthew Summy and David Stone of C.H. Johnson Consulting.

Regent Forsyth asked if the pledges were to increase from \$16.1 million to \$16.5 million, would the level of UNI Foundation undesignated funds be reduced by the dollar amount of additional pledges. Vice President Schellhardt responded affirmatively.

Mr. Summy provided a PowerPoint presentation which summarized C.H. Johnson's report. With regard to the scope of work, the following information was presented:

- Framework question: Independent feasibility review of prospective operating self-sufficiency of Fieldhouse enterprise system.
- Analytical elements and work product
  - Market analysis and general overview
    - UNI – programs, services, athletics
    - Cedar Valley market
  - Contribution to the enrichment of University environment
  - Internal/external use policies
  - Oversight and monitoring
  - Financial expectations/performance
  - Resource deployment (programs, staff)
  - Vendors
  - Building program commentary and analysis
  - 20-year pro forma

Mr. Summy stated that his firm views public usable facilities as regional in nature. The University would be the preferred tenant in this facility.

The next slide presented the operating evolution, as follows:

- Demand sectors
  - Athletic events
  - Entertainment events
  - Family shows

- Operating attributes
  - Optimal flexibility
  - Ability to respond to market and product changes
  - Adaptable revenue streams
  
- Program evolution
  - Retractable seating at north end
  - Commissary kitchen
  - Private function areas
  - Functional infrastructure

Mr. Summy stated that C.H. Johnson Consulting reviewed ticket sales for the Gallagher-Bluedorn facility. The firm conducted a market analysis. He said every program element has a monetary impact. He described the different types of events, the types of attendees attracted to the events, and the type of concessions provided at the different events.

Mr. Stone discussed the slide of the projected schedule of events by category and year and the projected attendees by category and year. He noted that the figures included both the UNI-Dome and the Arena.

Mr. Summy discussed the return on investment. He said the public funds invested in these facilities are cycled through the economy.

Mr. Stone referred to the projected increase in events, and stated the increase was because the UNI-Dome is not an appropriate facility for events that can be held in the Arena, such as concerts. He said there are non-financial aspects to having the facility, such as the recruitment of athletes.

Mr. Stone discussed the pro forma. He noted that, since October 6 (the date on which the feasibility study was completed), the data had changed some, and those figures were identified in the PowerPoint presentations. The consultants had changed some of the assumptions and some of the recommendations. There were also a couple of mathematical errors. He addressed the data on the debt service coverage and said the debt service coverage data did not include coverage available from the surplus fund. New revenue streams do not begin until the Arena is open.

Mr. Summy stated that the consultants believe the business and finance plan meets the objectives of the Regents, and the Event Complex can be a self-liquidating facility predicated on a few changes in the revenue assumptions.

Vice President Schellhardt referred to changes in the financing from July to present. Of the construction cost of \$19.5 million, there was approximately \$6 million of cash on hand in July; borrowing the remainder would require an annual debt service estimated at \$975,000. Because of the additional cash on hand of nearly \$3 million, the estimated annual debt service, as of October 1, 2003, based upon the amount that needs to be borrowed, is \$713,000. Therefore, he stated that some enhancements that Johnson Consulting recommended can be added to the project, and the debt service would still be at a level lower than had been estimated in July.

Regent Downer referred to the cost for the enhancements and the lesser amount of funds earlier indicated as being needed from the Foundation. He asked if the funds that would have lessened the amount required by the Foundation might be available to cover the additional costs.

Vice President Schellhardt stated that \$17 million were pledged. He anticipated that funding of the additional program enhancements can be accommodated with a combination of borrowing and the Dome surplus fund, without using the unrestricted funds of the Foundation.

Regent Neil asked if the figure for debt service included the entire enterprise, including the UNI-Dome bonds. Mr. Summy responded that debt service is included on three separate lines in the pro forma for the existing debt for the Dome, the Arena proposed bond issue, and the City of Cedar Falls loan.

Regent Neil referred to the current parking revenue and asked if those funds that currently return to the Athletic Department will continue to be returned to the Athletic Department. Vice President Schellhardt responded affirmatively.

Regent Neil asked about the recipient of the current advertising and sponsorship revenue for events. Assistant Athletic Director Justin Sell responded that sponsorships are currently managed by the Athletic Department. The proposal is that sponsorship and advertising opportunities will be managed by the Event Complex.

Mr. Summy clarified the comment and stated that their pro forma included only the advertising revenue for the Arena and not the Dome.

Regent Neil asked about revenues of the current events in the UNI-Dome that are non-athletic in nature. Mr. Summy responded that signage opportunities will primarily exist in the Arena. The University would have the option of separating the revenues of those entities. He said it is not possible to channel the advertising in the UNI-Dome just for athletic events. He noted that much of the signage in athletic facilities is the electronic banner advertising which is selective by event type. In that way the University would

have the capacity to channel advertising toward specific enterprises within the larger system.

Regent Forsyth stated that this project has been evolving since 1998. Sometimes when one is involved in a project over an extended period of time, it is necessary to step back and question why, strategically, the project is taking place. He said that what was proposed was not part of the University's core mission. They need to be sure that the financing enterprise is not at risk in any way. Therefore, the consultant's numbers are critical.

Regent Forsyth stated that the environment has changed since 1998. State support for the Regent institutions is at 1998 levels. He believes there is little elasticity in the tuition charged at the University of Northern Iowa for in-state students. If there is any elasticity relative to tuition, he believes it is in the student mix and enrolling more out-of-state students which would provide some hope of an improvement in the revenue stream.

Regent Forsyth next addressed risk-reward. He stated that it had been said there is a broader public impact to the project. In measuring projects from a public broader good, one can usually get a return, which was why most of these types of facilities are built by public bodies, not by universities.

Regent Neil questioned the sustainability of the project. He stated that students are the ones put at risk relative to the bonds. He referred to Regent Forsyth's point about the lack of elasticity in student tuition rates and stated that it appears to compute because of the favorable interest rate environment. He said it was that context and because of the changing numbers that this appeared to be a moving target. He noted the Banking Committee members were faced with an artificial timeframe of having to make a decision at this meeting.

Regent Forsyth referred to information in the consultant's report which indicated that most of the events that would be attracted to the Arena would not appear at other locations in the state. Mr. Summy responded that events that would not be offered within 90 miles of the Cedar Falls area would typically be attracted to the Arena.

Regent Forsyth asked how the number and type of events was determined, and the sensitivity analysis that was applied to the number and type of events. He said there are several variables that could make the pro forma go any way one wants it to go. He then asked for the assumptions about the costs associated with running the facility.

Regent Forsyth referred to information in the consultant's report about positive cash flow assumptions and asked how those were determined. Also, how was the operating cost associated with personnel determined? He referred to examples of the three

similar facilities included in the feasibility report and noted that the one losing money is the Iowa facility. He next referred to the gains for the other two facilities which he said were miniscule versus the potential for losing money. He assumed it would only take a couple of events to turn a \$74,000 gain into a \$20,000 loss. He then said the Arena is a smaller venue than most. In the consultant's report, it was indicated that a local tax option makes a difference in financial viability of many of these types of facilities across the country. He asked if the comparable financial aspect to the proposed University of Northern Iowa Arena is the double tax-exempt financing.

Mr. Summy responded that both the tax-exempt bonds and the annual University contribution for the operation of facilities of \$713,000 made this facility comparable with other facilities.

Regent Forsyth stated the report indicated that usually 5 percent of the annual revenues is earmarked for capital improvements, but for this facility the pro formas have the amount allocated to improvements being spent every year. There appeared to be a very small margin. The risk was that the financial burden would fall on students, while the primary benefactor is the broader public, not the students.

Regent Forsyth referred to the 500 public assembly facilities with which the consulting firm has been involved. He asked where the University of Northern Iowa Arena fits on the continuum of confidence in the numbers. Mr. Summy responded that the consultants were 90 percent or above in the confidence of the accuracy of their projections. He said he felt confident about the numbers, predicated on several items. One item was the University as the tenant issue. There is an important business decision at the beginning of this process with regard to usage of the facility by the Athletic Department. The athletics calendar should be known a year in advance so that the rest of the calendar can be made available for scheduling other events. The University becomes a preferred tenant.

Mr. Summy stated the consultants had prepared a white paper about the accuracy of the firm's previous projections which would be distributed to the Banking Committee members. He referred to the aforementioned 90 percent probability and said the projections in the pro formas were very conservative. The caveat is that a determination be made at the beginning with regard to programming for the University and for the business enterprise to determine the sources of the revenue streams and what prices have to be charged for tickets.

Mr. Stone expressed confidence that the consultant's assumptions were conservative. The figures were based on historical operations at the Dome which can continue to be achieved in the future. With regard to the capital surplus fund, he said that was also treated conservatively. Normally, the capital fund would be built up over time to be

spent on a costly project at some time in the future. The consultant assumed for the University of Northern Iowa Arena that the capital funds would be spent every year, instead of building up over time and being spent all in one year. The assumption was that five percent of net revenues would be spent every year. Therefore, the balance of the fund in a given year will likely be much higher than projected because five percent likely will not be spent every year.

President Koob referred to the broader context of the project, acknowledging the concern about the impact on the University. He stated that the Governor has repeatedly reminded the Regents of their obligation to contribute to the economic development of the state. He said the opportunity presented by cooperating with the larger community to create economic vitality in the area should not be overlooked. University officials have taken into account how the project can contribute to the overall economic development of the state and the region, while creating a good facility for the programs of the University.

Regent Forsyth stated that, although he agreed with President Koob's comments, he was concerned about the state of the state and the state's ability to support higher education. He asked if there is a way to fund the project without pledging the financial support of students.

Regent Downer stated that he understood the risks associated with the project. He said \$17 million in private support has been pledged for the project. Support of alumni and friends of the institution is a component that has not received sufficient attention. He said the institutions have been built, in part, by alumni and friends, and citizens in the respective communities. While this project is perhaps not a part of the core mission of the University of Northern Iowa, he said there are a number of aspects that impact the vitality and future of that institution. The consultants had noted that the University of Northern Iowa is the only institution in its athletic conference without a dedicated arena. The importance of the arena as a recruiting tool was pointed out. Some important University of Northern Iowa activities and programs are going to be using this facility.

Regent Downer referred to the words of former-President Boyd when he said of the University of Iowa that if they are going to do something, they are going to do it well, whether it be academically or athletically. Regent Downer said that statement applied here, as well. The uses that do not directly relate to the University of Northern Iowa are a way to make the books balance, but the primary use is for the benefit of the institution and its constituencies. A number of the University's athletic programs would be relocated to this facility. The volleyball program has been restricted in its growth because of its inability to hold a large number of home meets. He expressed his support for the project and its importance to the institution.

Regent Becker said she agreed with the comments of Regent Downer. She was reassured by the report of the outside experts who know this business. She said the intent was not to use student fees for repayment of bonds for this project any more than to repay any other bonds; however, identifying fees as a back-up funding source is the way the Regents bonding may be performed. If the outstanding issues are adequately addressed, she would support the project. If another entity in the area were to build an arena, the University would not be a priority tenant.

Regent Forsyth stated that he could be ready to support the project in another meeting but he was not ready to support it today. He said it was not fiscally responsible when all of the information has not been reviewed. If the additional requested information were to be presented to the Banking Committee in November, and he had an opportunity to read it, he might be prepared to support the project.

Regent Neil referred to the recent 2-1/2 percent budget cut as well as the Regents' ongoing request of the legislature for full funding of salaries. With those issues in the forefront, he said the Arena project was distracting. The general public does not understand the budget issues for the universities when there is construction taking place on campus. He stated the timing was very bad. He said the finest Fieldhouse in the world can be built at the University of Northern Iowa but if the University is not filled with good professors, the University will not be able to fill the Fieldhouse. He stressed that the Regents' number one issue is full funding of salaries. To deal with issues of new construction sends the wrong message. Therefore, he was not ready to support the project at this meeting.

Regent Neil stated it appeared that City of Cedar Falls officials do not really want to be a part of the Arena because of their demand for certain language in the contract with the University.

Regent Arbisser asked Director Wright to address the issues with regard to the City of Cedar Falls contract. Director Wright responded that the Board Office, the Board's bond counsel and the Attorney General's Office reviewed the contract. The Board Office had suggested changes to the University which were to be conveyed to the City about changes that should be made in the contract. Virtually none of the requested changes were made, including a simple change that would have indicated that the Board did not have representation in either negotiating or drafting the agreement. Other issues included what the City required be included in the Arena for the City to provide its funds, which went beyond what the City should be demanding. When the Regent universities solicit bids for construction projects, delete and add options are included in case a determination is made that a particular option can be afforded. However, the City's insistence on specifying items such as sound systems and lighting systems in the City contract forecloses the opportunity for alternates. He said the City also asked for

preferential treatment in the rent it pays for the use of certain facilities that are not associated with the Arena.

Regent Arbisser referred to the project financing. He asked if the \$19.5 million includes the design alterations recommended by the consultants. Vice President Schellhardt responded that the consultant's recommended alterations were not included in the \$19.5 million.

Regent Arbisser asked if some changes still need to be made to the proposal. Vice President Schellhardt responded affirmatively. He said the cost would be \$19.5 million plus program enhancements of another \$2.6 million.

Mr. Summy said those amounts are built into the debt numbers in the pro forma he presented.

Regent Arbisser referred to the three civic arenas referenced earlier by the consultants and asked if their concessions include alcohol sales as part of revenue. Mr. Summy responded that alcohol sales were part of the revenue for selected events.

Regent Arbisser asked about alcohol sales for the proposed University of Northern Iowa arena. Mr. Summy responded that the consultants assumed a more family-oriented environment for the University of Northern Iowa arena that would produce much fewer sales of alcohol.

Regent Arbisser referred to the division of parking revenues and asked from where do the revenues come to fix potholes, for example. Mr. Summy responded that an expense ratio on the gross revenues is built in. Approximately 15 percent of gross revenues is allotted for those types of repairs.

Regent Neil asked if funds for repair to the UNI-Dome roof were factored in. Mr. Summy responded that 5 percent of annual revenues are assumed to be used for improvements to the Complex.

Regent Neil pointed out that 5 percent reserve is for both facilities. Mr. Summy agreed the "reserve" is for both facilities. President Koob said the reserve is already set aside. He said the question of whether to increase the debt service as opposed to using existing funds would need to be answered. He believes it becomes a simple calculation about what is most economically advantageous.

President Newlin asked President Koob about the impact of delaying action on the project for a month to allow the development of a report to be presented next month that incorporates the information requested at this meeting.

President Koob stated that a one-month delay was acceptable. The concern is a long-term delay because of the uncertain environments with respect to interest rates and construction costs. University officials would very much like to move forward in time to receive bids prior to February to take advantage of what is typically the most advantageous bidding climate. He then asked Vice President Schellhardt about delaying until November.

Vice President Schellhardt responded that the University can wait until November. However, it may mean another year in terms of opening the facility if the University waits until spring to let bids.

President Newlin expressed his concern about the contract with Cedar Falls. President Koob stated the City of Cedar Falls wrote the contract language for political reasons. University officials warned the City officials that the contract would not be viewed favorably by the Board of Regents. He then stated that University officials have asked repeatedly for suggestions on how to carry issues related to the contract forward, but were told there was no sense in doing so unless there was assurance the project was going to be approved. Therefore, it was a catch 22. The approval cannot be delayed in order to negotiate and negotiations cannot take place until after the approval is granted.

President Newlin suggested the \$500,000 offered by the City be taken out of the mix of revenues and then the issue of the contract language would be moot. President Koob said he has proposed that solution.

Regent Downer suggested the City might be more willing to compromise if a lower sum of money was at issue.

President Koob stated that the City wrote the contract for political purposes. He believes that if the Board of Regents tells the City that it does not agree to the language, the full amount of funds will be forthcoming without any of the onerous conditions. He stated that the University needs to have a Board position from which to work. University officials have been working without any clear direction from the Board.

Regent Becker asked if the contract with the City met the lawyers' requirements and if Regent Forsyth became comfortable that he understood the information and that the information was accurate, if the project could be approved by the Banking Committee and forwarded to the rest of the Regents. She acknowledged that addressing those two issues might not address Regent Neil's concerns.

Regent Arbisser said there was clearly a sentiment to be supportive to the University; however, there is a responsibility to ensure everything is in order. Therefore, he asked

that this project be brought back to the Banking Committee next month with an updated schematic design, and with budget alterations based on whether or not the City is allowed to dictate certain aspects of the project based on its 2.5 percent support of the \$19.5 million project budget.

Regent Forsyth asked that the sensitivity analysis and information that relates to the consultant's 90 percent confidence level also be provided next month. Mr. Summy stated that the consultants were prepared to distribute a new chapter that illustrates all of the assumptions for the program enhancements.

Regent Forsyth stated that, in addition, he required information indicating the consultant had looked at the business and financing plan and believes it is reasonable, valid and conservative. The consultants indicated that they would do so.

President Koob asked for the identification of an individual who can speak on behalf of the Banking Committee to provide direction on whether it is preferred to have a financing plan or use the Dome enterprise fund. He stated that some of the assumptions the University has been forced to make are based on indefinite or unclear direction from the Board. He said the Dome fund is a legitimate source of investment in this project and would keep the debt service down but doing so might make Regent Neil uncomfortable.

Regent Forsyth stated that, if President Koob was asking if it would be allowable to use the \$1 million currently set aside for the Dome to flow into this project, he said that the use of the funds would not receive his support. However, he was only one member of the Banking Committee and President Koob would want to know the sense of the Banking Committee as a whole. President Koob said that was exactly right.

Regent Forsyth stated that his view on the issue of Cedar Falls is to not leave \$500,000 on the table but to be aggressive about the issues that have been raised by legal staff. If President Koob was asking for a sense of the probability that the project will be approved by the Banking Committee, he presumed there was a 90 percent probability. However, other members of the Banking Committee may have a different perspective.

Regent Forsyth stated that Regent Neil's question about the complication this project creates relative to the legislature is a legitimate strategic question. He said the issue with the legislature is a major complicating variable for all three Regent universities because the Board of Regents are the Regents for all of the universities. He agreed that moving forward with the Arena project is a bad strategic move at this time. The Regents have to make a system-wide judgment and the Regents have not yet had that discussion. He said Regent Downer raised good points, as well, and from a different perspective than that of Regent Neil.

MOTION: Regent Newlin moved to delay consideration of the project until November to allow time to respond to the requests for additional information. Regent Neil seconded the motion.

Mr. Eno offered the University of Northern Iowa Foundation's point of view. He said this is a privately-financed proposal to build a building. The building is part of a larger campaign in which \$90 million has been raised to date, the majority of which will be for scholarships and academic programs. He stated that the Foundation has gone "on the line" with its donors, with faculty and with students. The Foundation would face credibility issues if the Arena project does not move forward. He said Foundation support has become more important because of the increasing need for private support for scholarships. He asked that his comments be taken into consideration in the deliberations.

Regent Forsyth stated that Mr. Eno made an important point. He then indicated to Mr. Eno that what he was witnessing was governance at its best. He was sure the outcome would be a thoughtful outcome.

Regent Arbisser asked that President Newlin restate the motion.

RESTATED MOTION: Regent Newlin stated that he had moved to delay consideration of the project for a month to take into consideration the comments of the various Regents, including the comments relating to the City of Cedar Falls contract and the financial pro forma, and to develop the updated numbers in terms of the \$2.6 million additional expenditures that are not part of the \$19.5 million project cost. Regent Neil seconded the motion.

Executive Director Nichols said staff would interpret the motion as an expectation that a revised budget and design will be presented in November.

Regent Arbisser stated those materials were to be presented to the Banking Committee members in advance of the meeting.

Regent Becker referred to the agreement with the City of Cedar Falls, and asked if the expectation was that would be modified or eliminated from the financial plan.

Regent Forsyth referred to the \$900,000 that the Foundation was willing to pledge. He asked if the Foundation would be willing to back the \$500,000 from the City as negotiations with the City take place.

Mr. Eno indicated the Foundation probably would be agreeable to do as suggested by Regent Forsyth if it meant the project would be successful.

Regent Forsyth stated that if it took three months to complete negotiations the City, having the support of the Foundation would prevent having a “hole” in the project budget.

Regent Neil stated the City of Cedar Falls needs to decide whether or not it wants to be a part of the project. (Other Banking Committee members agreed with Regent Neil’s statement.)

VOTE ON THE MOTION:                      Motion carried unanimously.

#### **INVESTMENT POLICY REVIEW.**

Director Elliott stated that the proposed investment policy was developed with the assistance of the Board’s investment advisor and the Regent institutions. She said this was a first reading and any recommended changes would be brought back next month. The proposed policy incorporates all of the investment policy changes made by the Banking Committee over the last eight years. She distributed a letter from the Board’s investment advisor to the Banking Committee members which indicated his support of the proposed policy.

Regent Forsyth asked that all of the fund managers review the policy to determine whether there are any inconsistencies with what they are doing. He referred to the objective of the Board’s investment policy which is to ensure the financial health of the institutions it governs. He asked that consideration be given to whether the objective is actually to protect the corpus and grow with inflation because an investment philosophy should address the corpus.

Regent Forsyth referred to risk tolerance, and said he thought the items should be in a different order to reflect priority. He offered to provide input on the priority order.

Regent Forsyth referred to the language in the performance evaluation standards which read, “over a full investment cycle or a three-year period, whichever is shorter”. He stated that a three-year period of time is a very short time after which to perform an evaluation. For the most recent six-year period, there have three down years and three up years. Perhaps a six-year cycle would be a more appropriate length of time.

Continuing to address the performance evaluation standards, Regent Forsyth stated the requirement that investments be at the 50<sup>th</sup> percentile is very low. If his company's managers are not performing at the 75<sup>th</sup> to 80<sup>th</sup> percentile over a long period of time, new managers are brought in. One might as well index if the requirement is to perform at the 50<sup>th</sup> percentile. He asked that consideration be given to changing that language.

Regent Downer expressed concern about several deletions. The first deletion was of the following language under investment policy authority: "The auditor shall report any non-compliance with state law and Regents investment policy". He stated that, while the Board of Regents cannot control what State Auditor Vaudt reports, he believes the statement should be retained.

Director Elliott stated that the language proposed to be deleted from the investment policy was contained within the Iowa Code. The investment policy references the specific Code section.

Regent Forsyth suggested the language be retained.

Regent Downer said a second proposed deletion was of investment guideline language which says, "More detailed investment policies and procedures adopted by individual institutions shall be submitted to the Banking Committee and the Executive Director of the Board". He questioned the reason for the deletion of that language.

Vice President True stated that the University of Iowa restricts internal purchases to a greater extent than is restricted in the Board's investment policy. However, he said University officials would be pleased to report all of the institution's investment policies and procedures.

Regent Downer requested that the language be retained.

Vice President True stated that the University of Iowa's policies are only more restrictive. He said University officials would be pleased to submit to the Banking Committee those policies in which the University would be more restrictive.

Director Elliott said the venue would be through the Banking Committee. If the Banking Committee members prefer it, the language can be retained.

Regent Forsyth questioned what the harm would be if an institution has a more restrictive policy about which the Banking Committee was unaware.

Regent Downer stated that it made sense for the Banking Committee to have oversight of the institutional policies.

Regent Forsyth stated that institutional officials would be required to request exceptions but not report on an ongoing basis once the exceptions have been granted.

Vice President Madden stated that Iowa State University restricts its small extension offices.

Regent Downer said a second proposed deletion was of investment guideline language which says, "There are no specific restrictions on portfolio turnover; however, the Board anticipates that longer-term performance will result from conservative investment strategies, not trading strategies. Trading done for the purpose of arbitrage or short-term speculative gain is prohibited". He asked why that language was deleted.

Director Elliott responded that the language was reworded and moved to another section of the investment policy.

Treasurer Thompson stated that Wilshire Associates recommended removal of the specific language.

Regent Downer emphasized the need for the comprehensive investment policy to guide the various managers' investment strategies.

**ACTION:** Regent Arbisser stated the Banking Committee reviewed the proposed changes to the Board's investment policy, by general consent.

**ADJOURNMENT.**

The meeting of the Regents Banking Committee adjourned at 6:00 p.m. on October 15, 2003.

  
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Pamela M. Elliott  
Director, Business and Finance

  
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Gregory S. Nichols  
Executive Director