

**MEMORANDUM**

**To** Banking Committee

**From:** Board Office

**Subject:** Preliminary Resolution for the Sale of up to \$6,200,000 Indoor Multipurpose Use and Training Facility Revenue Bonds, Series I.S.U. 2003

**Date:** November 4, 2002

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**Recommended Action:**

Subject to approval of the calendar year 2003 bond issuance schedule (see B.C. 3), recommend that the Board adopt A Resolution (see G.D. 7) authorizing the Executive Director to fix the date or dates for the sale of up to \$6,200,000 Indoor Multipurpose Use and Training Facility Revenue Bonds, Series I.S.U. 2003.

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**Executive Summary:**

Subject to approval of the calendar year 2003 bond issuance schedule, the Banking Committee is requested to recommend that the Board adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$6,200,000 Indoor Multipurpose Use and Training Facility Revenue Bonds, Series I.S.U. 2003.

The Board previously approved the schematic design and project description and budget (\$9,371,800) for the project, which will construct an indoor multipurpose use, training and practice facility for use by varsity football and other field - sports programs.

The University reports that of the \$9,371,800 approved budget, gift funds totaling \$3,867,000 are currently available. The ISU Foundation and the Athletic Department have pledges and other revenues to pay for the construction of the facility. However, the pledges are to be paid over a period of years.

Discussions among the University, the ISU Foundation, the Board Office, and the Board's bond counsel and financial advisor have occurred over the past few months regarding financing for the portion of the project cost for which gift funds are not currently available.

Based upon these discussions, it has been determined that a Board of Regents bond issue backed by an agreement with the ISU Foundation for gift revenues would be the preferred financing structure.

The Indoor Multipurpose Use and Training Facility will be established as a self-supporting enterprise. Income to provide for the operating costs of the facility and for debt service and debt service coverage will be derived from three sources:

- gift funds provided under an agreement with the ISU Foundation;
- income generated by charges to users of the facility; and
- a portion of the existing fee for Intercollegiate Athletics to be designated for the multipurpose facility. (There will be no increase in fees charged to students to finance this facility.)

The University anticipates that gift income will be more than sufficient to pay the debt service on the bonds for several years. Provisions will be made to release the student fee revenue not needed for the Multipurpose Enterprise to the Athletic Department budget in each year, once all debt service requirements and bond covenants have been satisfied.

Principal on the bonds would be repaid over a period of 18 years, with debt service of approximately \$500,000 annually.

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**Background:**

Statutory Provisions

Under the provisions of Iowa Code Chapter 262, the Board is authorized to construct, equip, maintain and operate self-liquidating and revenue producing facilities at the universities; the Board is also authorized to borrow money to construct or improve these facilities.

Project

The project will construct an indoor multipurpose use, training and practice facility for use by varsity football and other field-sports programs. The facility will be constructed in the proximity of Jack Trice Stadium over the existing artificial turf practice field.

The facility may be expanded at a future date, subject to the availability of funding, to accommodate a number of large University, student, community, and state activities.

The project is tentatively set to be bid in December 2002.

Financing

When the Board granted the University permission to proceed with the project in January 2002, it was noted that the private gifts were anticipated to be the source of funds for the project, with the specifics of financing to be part of the planning process involving the Board Office, legal and financial advisors, and the ISU Foundation.

When the schematic design and project description and budget were approved by the Board in July 2002, it was anticipated that the ISU Foundation would undertake the financing of the facility on behalf of the University to qualify for federal tax-exempt financing.

Further analysis of the alternatives by the University, ISU Foundation, the Board's bond counsel and financial advisor, and the Board Office lead to the recommendation that the financing be undertaken as a Regent bond issue.

In the mid-1980's, the University used a similar self-liquidating enterprise structure to finance the Durham Computation Center with the Foundation providing a pledge of gift support for debt service on the bonds.

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

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**Analysis:**

Issue Size                The size of the bond issue, which would not exceed \$6,200,000, is estimated to total \$6,135,000 including:

- project costs (estimated at \$5,505,000);
- debt service reserve (estimated at \$507,000);
- underwriter's discount (estimated at \$92,000); and
- issuance costs (estimated at \$31,000)

Operation / Debt Service            Revenues to support the operation of the Indoor Multipurpose Use and Training Facility and to meet debt service requirements will come from three sources:

- *Gift Income:* Payments of gift pledges from the ISU Foundation will be paid directly to the debt service sinking fund and used only to retire debt. The Board will be asked to approve an agreement with the ISU Foundation regarding the schedule of gifts as part of the documents to be approved at the time of the sale of the bonds.
- *Fees Charged for Use of the Facility:* The primary user of the facility will be the ISU Athletic Department. Additional uses of the facility will involve special events for student groups or external groups such as Special Olympics. An appropriate fee structure will be developed to recover the operating costs of the facility.

- *Existing Student Fee for Intercollegiate Athletics:* There is an existing student fee of \$21 per semester designated for the operation of Intercollegiate Athletics. In the fee schedule to be acted on by the Board at its November 2002 meeting, this existing fee will become a component of a mandatory Student Services Fee (as opposed to a component of designated tuition).
- A portion of this fee will be designated as the Multipurpose Use and Training Facility Fee. Provisions will be made to release the revenue from this fee not needed for the Multipurpose Enterprise to the Athletic Department budget in each year, once all debt service requirements and bond covenants have been satisfied.

Outstanding Bonds      The proposed series of bonds will be the first bond issue for the Multipurpose Use and Training Facility enterprise.

Resolution              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., is available from the Board Office.

The resolution includes a provision permitting to the Board to receive 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 for the January 2003 Board meeting.