

MEMORANDUM

To Banking Committee

From: Board Office

Subject: Preliminary Resolution for the Sale of up to \$25,000,000 Hospital Revenue Bonds, Series S.U.I. 2002

Date: October 7, 2002

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 14) authorizing the Executive Director to fix the date or dates for the sale of up to \$25,000,000 Hospital Revenue Bonds (The State University of Iowa), Series 2002.

Executive Summary:

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 \$25,000,000 Hospital Revenue Bonds, Series 2002.

The revised calendar year 2002 bond issuance schedule, approved by the Board in September 2002, included the sale of Hospital Revenue Bonds in November 2002.

The sale of bonds for the University of Iowa Hospitals and Clinics was authorized by the 2002 General Assembly and approved by the Governor.

The bonds would be sold to finance a portion of the Center for Excellence in Image-Guided Radiation Therapy and the three-stories of shell space above the Center; the Board approved the schematic design and project description and budget (\$39,644,000) for the project at its September 2002 meeting.

Principal on the bonds would be repaid over a period of 25 years, with debt service of approximately \$1,716,500 annually to be paid from Hospital Income derived from the operation of the Hospital System.

Background:

Statutory Provisions	<u>Iowa Code</u> , Chapter 263A authorizes the Board of Regents to borrow money and to issue and sell revenue bonds to pay all or any part of the cost for projects at the University of Iowa Hospitals and Clinics upon approval of the General Assembly and Governor.
Outstanding Bonds	Four series of Hospital Revenue Bonds, totaling \$60,000,000, were sold between 1973 and 1983. The principal amount outstanding is \$2,675,000; the last maturity is September 1, 2003.
2002 Legislative Action	<p>The General Assembly passed and the Governor approved legislation (SF 2168 – Chapter 1155 of the Acts of the 2002 General Assembly) authorizing the Board to issue \$100 million in Hospital Revenue Bonds over a period of years.</p> <p>The legislation provides that bond proceeds can be used to construct, improve, remodel, repair, furnish, and equip inpatient and outpatient facilities and patient care facilities, including facilities for image-guided radiation therapy services and mechanical and other supporting facilities.</p>
Electronic Bids	The Board, at its November 2001 meeting, adopted a resolution approving electronic bidding procedures.

Analysis:

Issue Size	<p>The proposed bond issue, which would partially finance construction of the Center for Excellence in Image-Guided Radiation Therapy, would not exceed \$25,000,000 in size including:</p> <ul style="list-style-type: none">• project costs (estimated at \$23,183,500);• debt service reserve (estimated at \$1,716,500); and• issuance costs (estimated at \$100,000).
Bond Repayment	<p>The annual debt service payment of approximately \$1,716,500 would be repaid by Hospital Income.</p> <ul style="list-style-type: none">• Hospital Income includes the gross income and funds received by the Hospital System, including the proceeds of rates, fees, charges, and payments for health care provider activities for patient care services after deduction of Current Expenses.• Hospital Income does not include state appropriations to the University or to the Hospital System.

Bond Insurance

Springsted, the Board's financial advisor, is recommending that the bonds be sold with bond insurance at the bidders option, to insure the payment of principal and interest. Bidders can elect to purchase the insurance and include the cost in their bid or bid without insurance.

Since this is a hospital revenue bond financing, Springsted believes the bonds will sell better if they are qualified for bond insurance.

- Most university/teaching hospital bond issues are sold on a negotiated sale basis with a general obligation backing or as insured bonds.
- The UIHC bonds, which must be sold at competitive sale under the provisions of the Iowa Code, will be analyzed by bidders based on their rating and the insurance.
- The due diligence usually done by the underwriter in a negotiated sale will be done by the rating agencies and, in more detail, by the bond insurer.
- In the opinion of Springsted, this assurance to the market that a bond insurer has approved the credit will produce a more favorable rate in the competitive sale.

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 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 November Board meeting.