

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Semi-Annual Master Lease Report; Status of Request for Proposals – Master Lease Agreement
Date: October 8, 2001

Recommended Actions:

1. Receive the semi-annual report on lease purchases under the master lease agreement.
2. Receive the status report on the Request for Proposal for a provider of a master lease agreement.

Executive Summary:

The Board has established a master lease agreement to provide short-term financing (3 to 10 years) for real and personal property. The Regent Procedural Guide §7.32 requires that a semi-annual report on outstanding activity under the master lease agreement be submitted to the Banking Committee.

The aggregate amount for all leased real and personal property financed under the current (1996 effective date) master lease agreement through Wells Fargo Brokerage Services LLC (previously known as Norwest Investment Services) is limited to \$15 million, but the Board (lessee) may modify this amount. The Board approves each financing utilizing the master lease agreement and Wells Fargo must agree to lease the property.

Leases issued under the current master lease agreement total \$12.4 million (includes initial amounts financed as detailed in footnote 5, Table 1, page 5) as of September 30, 2001, leaving \$2.6 million of the \$15 million available for use.

The institutions did not enter into any new master lease agreements during the last six-month period. At its July 2001 meeting, the Board approved the refinancing of the master lease agreement for the University of Iowa University Services Building Equipment and Furnishings. The refinancing was finalized in August 2001.

None of the institutions have indicated plans to use the master lease agreement within the next six months.

The Board's current agreement with Wells Fargo Brokerage Services LLC terminates on December 1, 2001. At its July 2001 meeting, the Board authorized a Request for Proposal (RFP) for a new provider of the master lease agreement. The RFP was subsequently issued and proposals were received from:

GE Capital;

US Bancorp (Oliver-Allen Technology Leasing); and

Wells Fargo Brokerage Services, LLC

An oral report on the status of a master lease provider will be provided at the Banking Committee meeting.

Iowa Code §8.46 requires notification to the Legislative Fiscal Bureau of any lease-purchase or installment acquisition arrangement totaling \$50,000 or more at least thirty days prior to entering into the contract. A copy of this report is routinely sent to the Legislative Fiscal Bureau.

Background:

The Board has utilized the master lease concept since July 1985. Since November 1991, the master lease program has operated through Wells Fargo (previously known as Norwest Investment Services) as a result of competitive bidding through Request for Proposal (RFP) processes held in 1991 and 1996.

The current master lease agreement became effective December 1, 1996, for an initial two-year period with a provision to renew for one additional, three-year period upon mutual consent. At its October 1998 meeting, the Board approved extension of the agreement for the additional term. Wells Fargo agreed to this extension, which was effective December 1, 1998.

The Regents hold title to the leased real and personal property while Wells Fargo holds a first lien security interest; the extent of Wells Fargo's security interest is reduced as the principal is paid.

The lease financing option offers certain advantages for financing necessary and essential property.

- Leases do not have the high origination costs of small bond issues that result from establishment of bond reserve funds, underwriter discounts, and issuance expenses.
- The negotiation of lease financing terms and amortization schedules allows lease payments to be better matched with available cash flows. (The interest rate formula under the Wells Fargo agreement sets the rate at .58% over the “A” rated tax-exempt municipal bond yield for a ten-year lease, rising to a spread of 1.13% for a three-year lease.)

The Regent Procedural Guide §7.32 also provides that the institutions may execute vendor-financed leases or installment purchase agreements. Agreements in excess of \$100,000 for the universities and \$10,000 for the special schools are approved by the Executive Director and reported to the Banking Committee.

Analysis:

1996 Master Lease Agreement

The \$15 million aggregate finance amount for all property to be leased under the 1996 agreement is the sum of the initial lease amounts issued under the agreement.

The following table summarizes the amounts financed, to date, under the current agreement and the amounts outstanding as of September 30, 2001.

	Amount Financed to Date* <u>(\$ millions)</u>	Amount Outstanding as of 9/30/01 <u>(\$ millions)</u>
SUI	\$6.59	\$4.40
ISU	2.89	1.35
UNI	<u>2.90</u>	<u>1.38</u>
Total	\$12.38	\$7.13

*As noted in Table 1, page 5, the total sum financed includes the initial amounts for leases for the SUI Laundry Replacement Facility and University Services Building Equipment and Furnishings, and UNI Telecommunications System, and not the amounts refinanced.

During the six-month period ending September 30, 2001, the amount outstanding under the agreement declined from \$7.95 million to \$7.13 million. Since no new leases were entered into during this period, the difference is due solely to a reduction in the amount owed from previously authorized lease obligations.

1991 Master Lease Agreement

A total of \$177,000 is outstanding for Iowa State University on the 1991 Wells Fargo agreement for a scoreboard. (Table 1) The final maturity for this lease is November 2004.

Vendor-Financed Agreements

The institutions do not report any vendor financed agreements in excess of \$100,000.

The special schools do not have any outstanding leases under the master lease agreements or any vendor-financed agreements in excess of \$10,000.

TABLE 1
Outstanding Obligations
Master Lease Agreement
As of September 30, 2001

Institution	Date Issued	Final Maturity	Lessor	Amount Issued	Amount Outstanding	Interest Rate	Purpose/Explanation
University of Iowa	09/10/98	11/01/03	Wells Fargo	\$ 468,989 ¹	\$ 225,304	5.13%	Hydraulic Research Modeling Facility
	09/10/98	05/01/08	Wells Fargo	3,476,171 ²	2,565,539	5.18%	Laundry Replacement Facility
	12/10/98	11/01/03	Wells Fargo	524,000	276,193	4.83%	Equipment/Furnishings - Division of Alumni Records
	08/28/01	11/01/04	Wells Fargo	1,336,062 ³	1,336,062	4.56%	Equipment/Furnishings - University Services Building
			SUI Subtotal: \$	5,805,222	\$	4,403,098	
Iowa State University	07/94	11/04	Wells Fargo	\$ 450,000	\$ 177,028	5.58%	Scoreboard
	07/97	05/07	Wells Fargo	170,000	112,269	5.78%	Swine Building
	11/97	11/03	Wells Fargo	990,000	450,745	5.36%	Biomass Energy Conversion Facility
	02/98	05/03	Wells Fargo	900,000	391,709	5.03%	Hilton Coliseum Video Board
	08/98	05/04	Wells Fargo	510,000	271,070	5.21%	Anaerobic Digester
	07/99	05/09	Wells Fargo	189,000	---	5.48%	Live-Fire Simulator
	07/00	11/00	Wells Fargo	127,000	123,875	5.63%	Lakeside Laboratory Housing
			ISU Subtotal: \$	3,336,000	\$	1,526,696	
University of Northern Iowa	12/08/98	05/01/04	Wells Fargo	\$ 2,403,618 ⁴	\$ 1,382,557	4.86%	Lucent Telecommunications System
Iowa School for the Deaf	-----	-----	-----	\$ 0	\$ 0	-----	No outstanding Master Lease obligations
Iowa Braille and Sight Saving School	-----	-----	-----	\$ 0	\$ 0	-----	No outstanding Master Lease obligations
			Subtotal:	\$ 450,000	\$ 177,028		1991 Wells Fargo Master Lease Agreement
			Subtotal:	11,094,840 ⁵	7,135,323		1996 Wells Fargo Master Lease Agreement
			Total:	\$ 11,544,840	\$ 7,312,351		

¹ The Hydraulic Research Modeling Facility was financed in the amount of \$559,000 under the 1991 Wells Fargo Master Lease Agreement in November 1996 and refinanced under the 1996 Agreement in September 1998 in the amount of \$468,989.

² The Laundry Replacement Facility was financed under the 1996 Master Lease Agreement in January 1997 in the amount of \$3.8 million and refinanced in the amount of \$3,476,171 in September 1998.

³ Equipment and furnishings for the University Services Building were financed under the 1996 Master Lease Agreement in November 1999 in the amount of \$1.8 million and refinanced in the amount of \$1,336,062 in August 2001.

⁴ The Lucent Telecommunications System was financed under the 1996 Master Lease Agreement in March 1997 in the amount of \$2.9 million and refinanced in the amount of \$2,403,618 in December 1998.

⁵ The total amount financed under the 1996 Master Lease Agreement is \$12,378,989 which includes the initial amount of the leases for the SUI Laundry Replacement Facility (\$3.8 million), the UNI Lucent Telecommunications System (\$2.9 million), and SUI University Services Building Equipment and Furnishings (\$1.8 million).

⁶ State Department of Public Safety and Board of Regents have entered into a 28E agreement regarding payment of the outstanding obligation for the trailer, Department of Public Safety is making payments directly to Wells Fargo.