

MEMORANDUM

To Banking Committee

From: Board Office

Subject: Preliminary Resolution for the Sale of up to \$14,500,000 Telecommunications Facilities Revenue Bonds, Series S.U.I. 2003

Date: October 6, 2003

Recommended Action:

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 \$14,500,000 Telecommunications Facilities Revenue Bonds, Series S.U.I. 2003.

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 \$14,500,000 Telecommunications Facilities Revenue Bonds, Series S.U.I. 2003.

Interest rates, while having risen since June, are historically low and the yield curve is very steep. This scenario is particularly advantageous for current refundings (occurring within 90 days of the call date) since no escrow needs to be established.

The 1995 Telecommunications Facilities Revenue Bonds, with an outstanding principal of \$9,860,000 became callable on July 1, 2003, and may be called on any date after that time.

The University also desires to finance the purchase of telephone switching equipment totaling \$4,100,000 (see G.D. 2j).

While the refunding of the 1995 bonds was not included on the calendar year 2003 bond issuance schedule, the refunding of the outstanding bonds can be combined with the issuance of new bonds to finance the purchase of the telephone switching equipment, thereby reducing interest costs for the previously borrowed and new funds.

The debt service for the refunding component of the sale is estimated to be \$1.3 million annually through July 1, 2011 (same as the last maturity for the refunded bonds) and the debt service for the switching component is estimated at \$555,000 annually through July 1, 2013.

Debt service payments would be paid from Telecommunications System charges and the proceeds of any Telecommunications System Student Fees which the Board may establish in the future.

It is anticipated that the refunding will result in future and present value savings of \$563,000 and \$530,000 respectively.

Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for individuals who are Iowa residents and purchase the bonds.

Background:

Interest Rates Bond coupon rates and the net interest rate for Regent bonds are very dependent upon market conditions at the time of issuance.

As interest rates decline, bonds can be refunded and annual and total debt service costs reduced.

Definition of Refunding A refunding is the issuance of bonds whose proceeds are used to pay principal, interest and/or call premium, if any, of an existing debt obligation; the old (refunded) debt is replaced with new (refunding) bonds.

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.

The University's Telecommunications System is a self-supporting operation.

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

Analysis:

Bonds to be Refunded A portion of the proceeds from the sale of the proposed bonds would be used to refund bond principal of the Board's Telecommunications Facilities Revenue Bonds, Series S.U.I. 1995.

The 1995 bonds were issued in the amount of \$15,900,000, with a net interest cost of 5.0% to pay the costs of constructing and equipping improvements to the University's Telecommunications System; the financing enabled the University to accelerate the completion of a modern campus network system in 1996 and 1997.

- The bonds became callable on July 1, 2003, without payment of any call premium;
- The outstanding principal is \$9,860,000.
- The last maturity is July 1, 2011; and
- The coupon (interest) rates on the 2004 to 2011 maturities range from 4.55% to 5.1%.
 - Current interest rates for bonds maturing in the same years are significantly lower.

Equipment
Purchase

A portion of the new bond issue would be used to purchase telephone switching equipment to replace 18-year old equipment, which is no longer supported by the manufacturer.

The Board's Policy Manual requires Board approval for the purchase of equipment costing more than \$1,000,000.

Approval to purchase the telephone switching equipment, which will cost \$4,100,000, is requested in G.D. 2j.

Outstanding Bonds

As of June 30, 2003, the outstanding principal from the two outstanding Telecommunications Facilities Revenue Bond issues (including the bonds to be refunded) was \$23.4 million.

Savings

According to calculations of Springsted, the Board's financial advisor, the estimated present savings from the refunding component of the bond issue should approximate \$530,000.

Utilizing the bond issue to finance the purchase the telephone switching equipment is anticipated to save the University \$185,000 in future dollars over the next ten years compared to the use of the Board's master lease to finance the purchase.

Issue Size

The size of the bond issue, which would not exceed \$14,500,000, is estimated to total \$14,060,000 including:

- principal payment on 1995 bonds (\$8,310,000)
 - This amount is less than the outstanding principal of the bonds to be refunded (\$9,860,000) since the prior issue debt service reserve fund (\$1,550,000) will be used as a source of funds for the refunding.
- project costs – purchase of equipment (\$4,100,000);
- debt service reserve (estimated at \$1,406,000);
- bond discount (estimated at \$168,700); and
- issuance costs (estimated at \$75,300).

Debt Service Payments	<p>Debt service on the Telecommunications Facilities Revenue Bonds is paid from Telecommunications System charges and the proceeds of any Telecommunications System Student Fees which the Board may establish in the future.</p> <p>The possibility that student fees may be established in the future provides additional security for the bonds.</p>
Internal Revenue Service Requirements	<p>Under Internal Revenue Service regulations, a current refunding must occur no more than 90 days prior to the payment of the refunded bonds.</p> <ul style="list-style-type: none">• The sale of the refunding bonds would close in mid December 2003 and the refunded bonds would be called on January 1, 2004, meeting the requirements of the 90-day time period.
Resolution	<p>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.</p> <p>The resolution includes language which will permit the University to be reimbursed from the bond proceeds for project expenditures made prior to delivery date for the bonds.</p> <p>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.</p>
Sale Date	<p>The bond sale and award would be scheduled for the November 2003 Board meeting.</p>
