

MEMORANDUM

To: Banking Committee
From: Board Office *ASN*
Subject: Plaza Centre Refinancing (SUI)
Date: October 6, 2003

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 7) 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.

Executive Summary:

Request	The Banking Committee is requested to recommend that the Board adopt a resolution authorizing the Executive Director to take action needed for the issuance of not more than \$1,690,000 University of Iowa Facilities Corporation First Mortgage Notes to refinance the purchase of Units 2 and 3 of the Plaza Centre One Building Condominiums.
Facilities Corporation	The University of Iowa Facilities Corporation was incorporated in 1967 as a not-for-profit supporting organization of the University of Iowa Foundation to assist in maintaining, developing, increasing, and extending the facilities and services of the University.
Purpose	<p>The single tax-exempt Notes would be issued to refinance the existing taxable Notes issued for the purchase of Units 2 and 3 in early 2001.</p> <ul style="list-style-type: none"> • When the Facilities Corporation initially financed the purchase of the two condominium units, a portion of the space was occupied by taxable entities; thus tax-exempt notes could not be issued. • Taxable entities are no longer occupying the space and tax-exempt financing can now be used.
Internal Revenue Service Rulings	Based upon the requested Board action, the Notes, while issued by the Corporation, would be deemed under Internal Revenue Service rulings to be issued "on behalf" of the Board of Regents and the State of Iowa. Therefore, they would meet the requirements for tax-exemption of interest for federal (but not state) income tax purposes.
Savings	Based upon an analysis by Springsted, Inc., the Board's financial advisor, the refinancing would save approximately \$25,500 annually; the total present value savings between now and 2016 (the last maturity of the existing and proposed Notes) would be approximately \$238,000.

Background:

History

In January 2001, the Board approved a lease agreement between the Board and the University of Iowa Facilities Corporation for the University of Iowa's use of 24,114 square feet of office space (commercial condominium units 2 and 3, which occupy the second and third floors of the facility) and 2,000 square feet of finished basement space located in the Plaza Centre One Building, 125 South Dubuque Street, in Iowa City.

- The property was acquired by the University of Iowa Facilities Corporation at a cost of \$1.8 million with financing provided through a bank loan from Wells Fargo Public Finance Brokerage Services, Minneapolis, Minnesota, for a 15-year period.

The term of the lease was 15 years, co-terminus with the Facilities Corporation's loan; under the terms of the lease the University's rental payments are equal to the Facilities Corporation's scheduled loan repayment.

- The existing semi-annual loan payments are \$103,339.79.

When the lease was presented to the Board in January 2001, the University indicated that approximately 70% of the space would be available for University occupancy immediately or soon after March 1, 2001; the remaining 30% was to be transferred subject to the expiration or termination of the existing leases.

Acquisition of the property by the Facilities Corporation and its lease by the University enabled the University to reduce the amount of other off-campus leased office space.

Current Occupants

Current University occupants of Units 2 and 3 are the University departments of Purchasing, Accounts Payable, portions of University Relations and the Department of Psychiatry Employee Services Office. Recently vacated space will be occupied by the staffs of Risk Management and Asset Management.

Analysis:

Taxable versus
Single Tax-Exempt
Financing

When the Facilities Corporation initially acquired Plaza Centre Condominium Units 2 and 3, approximately 30% of the space was leased to non-University entities, including taxable ones; it was thus necessary for the Facilities Corporation to utilize taxable financing.

Since the initial financing was taxable, Board of Regents action related to the financing was not needed; the Board approved the lease with the Facilities Corporation for the University's use of the space.

Internal Revenue
Service Rulings

For the new Facilities Corporation Notes to meet the requirements for tax-exemption from federal income taxes, they must, according to Internal Revenue Service rulings, be issued "on behalf" of the Board of Regents and the State of Iowa. The Board of Regents must therefore approve the sale and terms of the Notes.

Optional
Prepayment

November 1, 2003 is the first principal payment date on which the Notes can be refinanced; the prepayment premium is approximately \$34,000.

Savings from
Refinancing

The savings from the refinancing are estimated at approximately \$25,500 annually; the estimated future and present value savings are \$319,000 and \$238,000 respectively between now and the last maturity date of 2016.

- The savings will result from an estimated 2.9% difference in interest rates. The 2001 taxable Notes have an interest rate of 7.68% per annum and the anticipated interest rate for the single tax-exempt refinancing is approximately 4.78%.
- The reduced interest expense will translate into lower lease payments by the University to the Facilities Corporation since the rent under the lease must be sufficient to pay debt service on the Notes.
- Springsted has prepared the attached tables which detail the projected debt service savings from the refinancing.

Lease Amendment

The Board's bond counsel has advised the Board Office that an amendment to the existing lease dated March 1, 2001 will be needed to change the definition of the Notes and to add covenants regarding the tax-exempt status of the Notes. The amendment has been incorporated into the Resolution.

**University of Iowa Facilities Corporation
Plaza Centre One
Taxable Debt Payment Schedule - Actual**

<u>Pymt Date</u>	<u>Principal</u>	<u>7.68% Interest</u>	<u>Loan Payment</u>	<u>\$1,800,000 Outstanding Principal</u>	<u>Optional Prepayment Price</u>
11/1/2001	\$11,179.79	\$92,160.00	\$103,339.79	\$1,788,820.21	
5/1/2002	34,649.09	68,690.70	103,339.79	1,754,171.12	
11/1/2002	35,979.62	67,360.17	103,339.79	1,718,191.50	
5/1/2003	37,361.24	65,978.55	103,339.79	1,680,830.26	
11/1/2003	38,795.91	64,543.88	103,339.79	1,642,034.35	1,675,801.33
5/1/2004	40,285.67	63,054.12	103,339.79	1,601,748.68	1,633,628.29
11/1/2004	41,832.64	61,507.15	103,339.79	1,559,916.04	1,589,915.94
5/1/2005	43,439.01	59,900.78	103,339.79	1,516,477.03	
11/1/2005	45,107.07	58,232.72	103,339.79	1,471,369.95	
5/1/2006	46,839.18	56,500.61	103,339.79	1,424,530.77	
11/1/2006	48,637.81	54,701.98	103,339.79	1,375,892.96	
5/1/2007	50,505.50	52,834.29	103,339.79	1,325,387.46	
11/1/2007	52,444.91	50,894.88	103,339.79	1,272,942.55	
5/1/2008	54,458.80	48,880.99	103,339.79	1,218,483.75	
11/1/2008	56,550.01	46,789.78	103,339.79	1,161,933.74	
5/1/2009	58,721.53	44,618.26	103,339.79	1,103,212.21	
11/1/2009	60,976.44	42,363.35	103,339.79	1,042,235.77	
5/1/2010	63,317.94	40,021.85	103,339.79	978,917.83	
11/1/2010	65,749.34	37,590.45	103,339.79	913,168.49	
5/1/2011	68,274.12	35,065.67	103,339.79	844,894.37	
11/1/2011	70,895.84	32,443.95	103,339.79	773,998.54	
5/1/2012	73,618.25	29,721.54	103,339.79	700,380.29	
11/1/2012	76,445.19	26,894.60	103,339.79	623,935.10	
5/1/2013	79,380.68	23,959.11	103,339.79	544,554.42	
11/1/2013	82,428.90	20,910.89	103,339.79	462,125.52	
5/1/2014	85,594.17	17,745.62	103,339.79	376,531.35	
11/1/2014	88,880.98	14,458.81	103,339.79	287,650.38	
5/1/2015	92,294.01	11,045.78	103,339.79	195,356.37	
11/1/2015	95,838.10	7,501.69	103,339.79	99,518.28	
5/1/2016	<u>99,518.28</u>	<u>3,821.51</u>	<u>103,339.79</u>	(0.00)	
Totals:	<u>\$1,800,000.00</u>	<u>\$1,300,193.70</u>	<u>\$3,100,193.70</u>		

November 1, 2003 Prepayment Calculation

Estimated Issue Costs

Outstanding Principal	\$1,642,034.35
Prepayment Fee	<u>33,766.98</u>
Net Prepayment Price	\$1,675,801.33
Issue Costs	<u>14,198.67</u>
Amount Financed	\$1,690,000.00

Springsted	\$2,704
Ahlers	4,056
Filing/Pubs	500
Other	<u>6,939</u>
Total	\$14,199

**University of Iowa Facilities Corporation
Plaza Centre One
Tax Exempt Debt Payment Schedule - ESTIMATED**

<u>Pymt Date</u>	<u>Principal</u>	<u>4.78% Interest</u>	<u>Loan Payment</u>	<u>\$1,690,000 Outstanding Principal</u>
5/1/2004	\$50,185.16	\$40,391.00	\$90,576.16	\$1,639,814.84
11/1/2004	51,384.59	39,191.57	90,576.16	1,588,430.25
5/1/2005	52,612.68	37,963.48	90,576.16	1,535,817.57
11/1/2005	53,870.12	36,706.04	90,576.16	1,481,947.44
5/1/2006	55,157.62	35,418.54	90,576.16	1,426,789.82
11/1/2006	56,475.89	34,100.28	90,576.16	1,370,313.93
5/1/2007	57,825.66	32,750.50	90,576.16	1,312,488.27
11/1/2007	59,207.69	31,368.47	90,576.16	1,253,280.58
5/1/2008	60,622.76	29,953.41	90,576.16	1,192,657.82
11/1/2008	62,071.64	28,504.52	90,576.16	1,130,586.18
5/1/2009	63,555.16	27,021.01	90,576.16	1,067,031.02
11/1/2009	65,074.12	25,502.04	90,576.16	1,001,956.90
5/1/2010	66,629.39	23,946.77	90,576.16	935,327.50
11/1/2010	68,221.84	22,354.33	90,576.16	867,105.67
5/1/2011	69,852.34	20,723.83	90,576.16	797,253.33
11/1/2011	71,521.81	19,054.35	90,576.16	725,731.52
5/1/2012	73,231.18	17,344.98	90,576.16	652,500.34
11/1/2012	74,981.41	15,594.76	90,576.16	577,518.93
5/1/2013	76,773.46	13,802.70	90,576.16	500,745.47
11/1/2013	78,608.35	11,967.82	90,576.16	422,137.12
5/1/2014	80,487.09	10,089.08	90,576.16	341,650.03
11/1/2014	82,410.73	8,165.44	90,576.16	259,239.30
5/1/2015	84,380.35	6,195.82	90,576.16	174,858.96
11/1/2015	86,397.04	4,179.13	90,576.16	88,461.92
5/1/2016	88,461.92	2,114.24	90,576.16	(0.00)
Totals:	<u>\$1,690,000.00</u>	<u>\$574,404.11</u>	<u>\$2,264,404.11</u>	

**University of Iowa Facilities Corporation
Plaza Centre One
Taxable vs. Tax Exempt Debt Service Comparison**

<u>Pymt Date</u>	<u>Taxable Loan Payment</u>	<u>Tax Exempt Loan Payment</u>	<u>Gross Value of Difference</u>	<u>4.78% Payment Present Value of Difference</u>	<u>Cumulative Present Value of Difference</u>
5/1/2004	\$103,339.79	\$90,576.16	\$12,763.63	\$12,465.70	\$12,465.70
11/1/2004	103,339.79	90,576.16	12,763.63	12,174.72	24,640.42
5/1/2005	103,339.79	90,576.16	12,763.63	11,890.54	36,530.96
11/1/2005	103,339.79	90,576.16	12,763.63	11,612.99	48,143.95
5/1/2006	103,339.79	90,576.16	12,763.63	11,341.92	59,485.87
11/1/2006	103,339.79	90,576.16	12,763.63	11,077.17	70,563.04
5/1/2007	103,339.79	90,576.16	12,763.63	10,818.61	81,381.65
11/1/2007	103,339.79	90,576.16	12,763.63	10,566.08	91,947.73
5/1/2008	103,339.79	90,576.16	12,763.63	10,319.44	102,267.18
11/1/2008	103,339.79	90,576.16	12,763.63	10,078.57	112,345.74
5/1/2009	103,339.79	90,576.16	12,763.63	9,843.31	122,189.05
11/1/2009	103,339.79	90,576.16	12,763.63	9,613.55	131,802.60
5/1/2010	103,339.79	90,576.16	12,763.63	9,389.15	141,191.75
11/1/2010	103,339.79	90,576.16	12,763.63	9,169.98	150,361.73
5/1/2011	103,339.79	90,576.16	12,763.63	8,955.94	159,317.67
11/1/2011	103,339.79	90,576.16	12,763.63	8,746.89	168,064.56
5/1/2012	103,339.79	90,576.16	12,763.63	8,542.72	176,607.27
11/1/2012	103,339.79	90,576.16	12,763.63	8,343.31	184,950.59
5/1/2013	103,339.79	90,576.16	12,763.63	8,148.56	193,099.15
11/1/2013	103,339.79	90,576.16	12,763.63	7,958.36	201,057.50
5/1/2014	103,339.79	90,576.16	12,763.63	7,772.59	208,830.09
11/1/2014	103,339.79	90,576.16	12,763.63	7,591.16	216,421.25
5/1/2015	103,339.79	90,576.16	12,763.63	7,413.97	223,835.22
11/1/2015	103,339.79	90,576.16	12,763.63	7,240.91	231,076.13
5/1/2016	103,339.79	90,576.16	12,763.63	7,071.89	238,148.03
Totals:	<u>\$2,583,494.75</u>	<u>\$2,264,404.11</u>	<u>\$319,090.64</u>	<u>\$238,148.03</u>	

RATE ADJUSTMENT ANALYSIS

Taxable Rate:	7.68%
Tax Exempt Rate:	<u>4.78%</u>
Reduction in rate:	<u>2.90%</u>

SAVINGS ANALYSIS

PV Savings as a % of Refunded Principal:	14.50%
PV Savings as a % of Refunding Principal:	14.21%
PV Savings as a % of Refunded Interest:	25.30%
PV Savings as a % of Refunded Debt Service:	9.22%