

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: October 9, 2000

Recommended Actions:

1. Adopt the following:

A Resolution authorizing the Iowa State Memorial Union to issue on behalf of the State of Iowa and sell its \$4,890,000 First Mortgage Notes, Series 2000 for the purpose of fully refunding the principal amounts of its \$6,815,000 Promissory Note dated November 1, 1995, its \$30,500 Unsecured Note dated June 1, 1999, its \$25,000 Unsecured Note dated August 25, 1999, and paying costs of issuance; authorizing the approval, execution and delivery of a refunding trust agreement and certain financing documents; providing for the payment thereof; and related matters.

(ROLL CALL VOTE)

2. Receive the report of the Banking Committee.

Executive Summary:

The Banking Committee materials, which include a memorandum covering each item in detail, have been furnished to all Board members. During its meeting on October 18, 2000, the Banking Committee is scheduled to consider the approval of the minutes from the September 2000 Banking Committee meeting, and approval of the Iowa State Memorial Union Refunding of Promissory Note.

The Banking Committee is also scheduled to receive a presentation by State Auditor Richard Johnson, the Semi-Annual Master Lease Report, a report on the Change in Wilshire Associates Representative, and internal audit reports for Iowa State University.

Background:

Approve Minutes of the September 13, 2000, Banking Committee Meeting

The minutes of the meeting will be included with the materials for the Banking Committee meeting.

Presentation by State Auditor Richard D. Johnson

Richard C. Johnson, CPA, has been the State Auditor of Iowa, since 1979. His current term expires in 2002. Auditor Johnson is scheduled to make an oral presentation at the Banking Committee during its October meeting.

Iowa Code Chapter 11 requires the State Auditor's Office to audit annually the Regent institutions and Board Office. The State Auditor releases separate annual independent auditor's report on financial statements of each Regent institution.

The State Auditor has made several presentations to the Banking Committee on various issues with the most recent being in February 1999. At that meeting, the topics covered included audit plans; positive audit projects at the Regent institutions; relationships between state auditors and internal auditors, institutional officials and the Board Office; and audit billings.

Iowa State Memorial Union Refunding of Promissory Note

The Iowa State Memorial Union is a separate, non-profit corporation established in 1922. Since the original facility was completed in 1928, the Memorial Union Corporation has borrowed funds to construct additions to the building and to make renovations. In 1995, the ground floor was remodeled to provide modern kitchen facilities and a food service court as well as student office space.

Since the Memorial Union Corporation issues notes on behalf of the University, the Board of Regents, as the benefited public body, must approve the terms of the financing. At the time of the 1995 renovation, the Board authorized the Union to issue and sell on behalf of the State of Iowa its First Mortgage Notes to refund the outstanding principal of prior promissory notes and to pay for the renovation of the ground floor.

The financing provided for annual principal payments beginning December 1, 1996, with a balloon payment due December 1, 2000. This financing was selected since it was anticipated that additional renovations would be undertaken in 5 years and the refinancing of the outstanding debt would be combined with the financing of the additional renovations.

However, the additional renovations will not occur before the balloon payment. In addition, there have been discussions between the University administration and the Memorial Union Board of Directors regarding governance structures. The governance issues probably will not be resolved until a new President of the University is selected.

The outstanding principal on the 1995 note is \$5,480,000. The Union, with concurrence from the University, proposed refinancing this outstanding amount for an additional 5-year period with a new balloon payment due December 1, 2005.

At its July 2000 meeting, the Board adopted a resolution authorizing the Iowa State Memorial Union to begin initial proceedings to issue its First Mortgage Notes, 2000 for the purpose of fully refunding the outstanding principal of the Promissory Note dated November 1, 1995. Iowa State University officials and the Board's bond counsel and financial advisor presented an updated, oral report to the Banking Committee at its September meeting.

The First Mortgage Note 2000 will total \$4,890,000. This amount, coupled with use of the debt service reserve from the 1995 Note, will be used to make the balloon payment on the 1995 note, pay off two outstanding unsecured notes, and pay the issuance costs (estimated at approximately \$40,000). The Note will be based on a 20-year amortization schedule with a balloon payment due December 1, 2005.

As discussed previously with the Banking Committee, the 2000 Notes and the mortgage will provide that upon payment of all indebtedness incurred by the Union or assumption of the obligations of the Memorial Union by the Board of Regents, unencumbered fee title to the Memorial Union will be conveyed to and vest in the State and the interest of the Memorial Union will terminate.

The indenture will also set up requirements for the issuance of additional parity notes and other obligations which may be subordinate to the Series 2000 Notes.

Semi-Annual Master Lease Report

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.

Leases issued under the current master lease agreement total \$12.4 million as of September 30, 2000, leaving \$2.6 million of the \$15 million available for use. During the last six-month period, Iowa State University entered into a \$127,000 master lease agreement to finance the purchase and relocation of housing units for Iowa Lakeside Laboratory.

In July 1999, the Banking Committee and the Board authorized Iowa State University to use master lease financing in the amount of \$189,000 to purchase a live-fire simulation trailer for fire fighter training for the Fire Service Institute. The 2000 General Assembly passed and the Governor approved legislation (HF 2492) which moved the Fire Service Institute from Iowa State University to the State Department of Public Safety. Pursuant to the legislation, the State Department of Public Safety and the Board of Regents entered into a 28E agreement (approved by the Board in June, 2000) regarding payment of the outstanding financial obligation for the trailer.

None of the institutions has indicated plans to use master lease financing during the next six months.

Change in Wilshire Associates Representative

The Board of Regents employs an investment advisor and money managers to guide its policy of active investment management. Wilshire Associates has been the investment advisor to the Board and Regent institutions since May 1996.

Michael Palmer of Wilshire Associates has accepted a new opportunity at Sanford Bernstein. Wilshire Associates has named Mark Brubaker to replace Michael Palmer as the representative for the Board of Regents and its institutions. Neither of these individuals will be available to attend the October Banking Committee meeting; however, they are scheduled to meet with Board Office and institutional personnel on October 17.

Internal Audit Reports

Completed institutional internal audit reports are presented to the Banking Committee as required by Board policy. The Board Office monitors the progress of the institutions' follow-up. When corrective action has been satisfactorily completed, the audits are closed.

Four completed internal audit reports are presented this month, two new and two follow-up. The Banking Committee docket memorandum provides summaries of each report and tables outlining the auditor recommendations, management responses, auditor responses, and auditor follow-up. The reports indicate that corrective action is being taken or has already been completed in a satisfactory manner.

The *Status of Internal Audit Follow-Up* table identified 32 internal audits, of which 30 still require follow-up. Internal auditors at Iowa State University closed two audits.



Pamela M. Elliott

Approved: _____



Frank J. Stork