

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Resolution Authorizing and Providing for the Issuance of University of Iowa Facilities Corporation Revenue Bonds (Roy J. and Lucille A. Carver Biomedical Research Building), Series 2002A and Series 2002B

Date: September 9, 2002

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 11) Authorizing and Approving the Execution and Delivery of the Ground Lease, the Lease, the Indenture, the Bond Purchase Agreement, the Tax Exemption Certificate and the Continuing Disclosure Certificate, and Authorizing and Providing for the Issuance of University of Iowa Facilities Corporation (Roy J. and Lucille A. Carver Biomedical Research Building Project) \$17,000,000 Revenue Bonds, Series 2002A, and \$8,000,000 Revenue Bonds, Series 2002B and Providing for the Payment Thereof.

Executive Summary:

Request	<p>The Banking Committee is requested to recommend that the Board adopt a resolution authorizing and approving various lease documents, indenture, a bond purchase agreement and certificates related to the sale of two series of University of Iowa Facilities Corporation Revenue Bonds for the University of Iowa Carver College of Medicine Roy J. and Lucille A. Carver Biomedical Research Building (CBRB).</p> <p>Two series of bonds would be issued; the Series 2002A bonds in the amount of \$17,000,000 would be single tax-exempt (exempt from federal, but not state taxes) and the Series 2002B bonds in the amount of \$8,000,000 would be taxable.</p> <p>At its July 2002 meeting, the Board adopted a resolution authorizing the Executive Director to take all action needed to effect the issuance of the bonds.</p>
Purpose	<p>The bonds would be sold to provide a portion of the funds needed to construct the facility.</p>
Schedule	<p>The calendar year 2002 bond issuance schedule, approved by the Board in November 2001, included a sale by the University of Iowa Facilities Corporation in September 2002 to provide partial funding for the CBRB.</p>

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.
Internal Revenue Service Rulings	Although the bonds are being issued by the Corporation, they are deemed by Internal Revenue Service rulings to 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 bonds.
Bond Structure	<p>The bond structure for the University of Iowa Facilities Corporation bond issue differs from the structure used for Board of Regents bonds.</p> <ul style="list-style-type: none">• The Corporation will issue the debt and lease the facility to the Board for use by the University during the terms of the bonds.• Upon retirement of the bonds, the facility will be conveyed to the University.
Bonds	The last maturity of the bonds to be issued would be June 1, 2028. Annual debt service for the two series of bonds of approximately \$1,750,000 would be paid from lease rentals, which will be paid by the University to the Facilities Corporation under the terms of the lease.

Background:

History	<p>In November 1999, the Board granted the University permission to proceed with planning for the Extension of the Medical Education and Biomedical Research Facility (MEBRF – B).</p> <p>In March 2001, the Board approved the schematic design for the project that would construct a 131,500 gross square foot facility to house research facilities and administrative functions of the College of Medicine (renamed the Roy J. and Lucille A. Carver College of Medicine by Board action in March 2002).</p> <p>In November 2001, the Board approved the naming of the College of Medicine Proposed Building B as the Roy J. and Lucille A. Carver Biomedical Research Building (CBRB).</p> <ul style="list-style-type: none">• The building was named for the Carvers in recognition of a \$10,000,000 gift from the Roy J. Carver Charitable Trust to support capital development of the College of Medicine. <p>In March 2002, the Board approved a project description and budget in the amount of \$40,731,000 for the CBRB.</p> <ul style="list-style-type: none">• Anticipated funding for the project was listed as University of Iowa Facilities Corporation Bonds and College of Medicine Gifts and Earnings.
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For purposes of the bond issue, the Project will be defined to include costs associated with the preparation and improvement of the site.

Project Schedule	The project is scheduled to be bid in October 2002.
Financing	Financing for the project would be similar to the financing used for the Medical Education and Biomedical Research Facility Extended Project (MEBRF-A). The last series of bonds for this project was issued in June 2002. The Corporation will issue the debt and lease the facility to the Board for use by the University during the term of the bonds.
Electronic Bids	The Board, at its November 2001 meeting, adopted a resolution approving electronic bidding procedures.

Analysis:

Rationale	The financing for the CBRB would be similar to the financing used for the MEBRF-A. The Corporation will issue the bonds and the Facility will be leased to the University.
Taxable and Tax-Exempt Bonds	As discussed at the July Banking Committee meeting, most of the sponsored research activity to be undertaken in the CBRB will be for private use as the term is defined by U.S. Internal Revenue Service rules. Thus, there will need to be taxable and tax-exempt components of the financing. An allocation of space between the research and educational components of the facility shows that approximately 65% will be devoted to research and 35% to education. The proceeds from the tax-exempt bonds cannot exceed the allocation of space devoted to education. Based upon this allocation, the Series 2002A Bonds (single tax-exempt in the amount of \$17 million) and the Series 2002B Bonds (taxable in the amount of \$8 million) will be issued this month; an additional taxable bond issue to complete the project is planned for early in calendar year 2004.

Bond Maturity When the Banking Committee discussed this proposed bond issue at its July meeting, it was envisioned that the last maturity of the bonds would be June 1, 2023.

Since that time, the University has completed further research and recommends that the term of the bond issue be extended by five years (last maturity June 1, 2028) for a total of twenty-five rather than twenty principal payments. The University's rationale is as follows:

- The projected useful life of the facility is much longer than twenty five years;
- There would be little, if any, interest rate penalty for the additional five-year term; and
- The annual debt service would be reduced, softening the impact of higher interest rates for the taxable portion of the bonds.

Lease Obligations The University's lease obligation with the Corporation will be an absolute and unconditional obligation of the University of Iowa. Lease payments are to be sufficient to pay the interest and principal on the bonds; supplemental rents are equal to administrative and trustee expenses.

Outstanding Bonds Principal outstanding, as of September 1, 2002, of SUI Facilities Corporation bonds for projects at the Health Sciences Campus include:

John W. Eckstein Medical Research Building (1986 Bonds, interest rates fixed in 1999)	\$ 8,585,000
Medical Education and Biomedical Research Facility – A (MEBRF – A) (1998 Bonds)	20,810,000
MEBRF-A (2000 Bonds)	20,810,000
MEBRF-A (2000A Bonds)	5,550,000
MEBRF-A (2002 Bonds)	<u>7,810,000</u>
Total	<u>\$63,565,000</u>

The total annual debt service payment for the above bonds is approximately \$6.4 million.

Bond Insurance The four series of bonds (1998, 2000, 2000A, and 2002) issued for MEBRF-A were insured by a municipal bond insurance policy issued by Ambac Assurance Corporation; the policy insures the payment of principal and interest to the bondholders.

The bonds had the highest rating from the credit rating agencies, Moody's Investors Service and Standard and Poor's; this rating produced an interest rate reduction sufficient to offset the policy premium.

The use of insurance enhances the marketability of the bonds. The use of bond insurance was therefore more beneficial to these financings than for Board of Regents bonds which have recognized market acceptance. Bond insurance will be used for this bond issue, as well.

Issue Size

The total size of \$25,000,000 for the two issues includes:

- Project costs (tax exempt) (estimated at \$15,417,000);
- Project costs (taxable) (estimated at \$7,171,000);
- Debt service reserve (estimated at \$1,818,000)
- Issuance costs (estimated at \$105,000);
- Bond discount (estimated at \$350,000); and
- Bond insurance premium (estimated at \$139,000).

Sale

The bond sale is scheduled for Thursday, September 19, 2002. The bid opening will occur at 10:00 a.m. that same day.

The Executive Committee of the Board of Directors of the Facilities Corporation is expected to approve the sale and terms of the bonds based on the best bid at a meeting scheduled for that date.

The Board of Regents, at its regularly scheduled meeting, will be asked to approve the previously referenced resolution, which was prepared by Ahlers Law Firm.

Bond Specifics

Average Maturity:	Series A (tax-exempt): 15.929 Years Series B (taxable): 16.467 Years
Bonds Dated:	October 1, 2002
Interest Due:	June 1, 2003, and each December 1 and June 1 to maturity
Principal Due:	June 1, 2004 – 2028
Optional Call:	Bonds maturing on or after June 1, 2013, are callable commencing June 1, 2012, and any date thereafter at par
Denomination:	\$5,000 and integral multiples thereof

APPENDIX A

The Bond Documents

These are the first two bond issues for the Roy J. and Lucille A. Carver Biomedical Research Building (CBRB). It is envisioned that an additional sale will occur in early 2004 to complete the project.

This Bond structure differs from the ordinary in several respects as is illustrated by a brief description of the principal documents to be approved by the Board of Directors of the University of Iowa Facilities Corporation and by the Board of Regents, State of Iowa at the time of the sale.

The documents are as follows:

1. **Ground Lease**. By the Lease, the Board has leased the site of the Facility to the Corporation.
2. **The Lease**. The Corporation leases the Facility back to the Board for use of the University during the term of the Bonds. Basic rents are equal to principal and interest payments on the Bonds (and are assigned to the Indenture Trustee to secure Bond payments). Supplemental rents are equal to administrative and Trustee expenses.

This is a capitalized lease under which the Bond proceeds are made available to the Board to construct and acquire the Facility on behalf of the Corporation.

The obligation to pay rent likewise begins when the bond proceeds are turned over. Risks of delay or problems in completing the Facility rest with the University and the Board. A Summary of the Lease has been prepared for inclusion in the Official Statement.

3. **Indenture**. The Basic Rents are assigned by the Corporation to Wells Fargo Bank, National Association, as Trustee to pay the bondholders. The Indenture embodies the terms of the Bonds and related covenants which are found in the Bond resolution in other financings.

The Indenture is a complex document, made more so by the lease-based structure of this financing. A summary of the Indenture has been prepared for inclusion in the Official Statement.

4. **Bond Purchase Agreement**. The Bond Purchase Agreement incorporates the terms of purchase by the successful bidders.
5. **Tax Exemption Certificate**. This is a customary document which sets forth the Issuer's expectations as to the use of Bond proceeds and the Facility to evidence its intent to comply with federal tax regulations which restrict the uses to be made of the proceeds and the Facility. In this case, the Issuer of the Bonds is the Corporation and the user of the Facility is the University, and both approve and sign the Tax Exemption Certificate.
6. **Continuing Disclosure Certificate**. This is given to the purchaser at closing to enable the Bonds to be reoffered. It commits the Issuer and the University to report to certain public information agencies as to annual financial information or the occurrence of certain adverse events. The financial reports covered are those of the University, since the financing is based upon its obligation to pay rents, and the Facilities Corporation.