MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Preliminary Resolution for the Sale of up to $7,000,000 Regulated Materials Facility Revenue Bonds, Series I.S.U. 2003
Date: September 8, 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 $7,000,000 Regulated Materials Facility Revenue Bonds, Series I.S.U. 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 $7,000,000 Regulated Materials Facility Revenue Bonds, Series I.S.U. 2003.

The Board, at its April 2003 meeting, approved the schematic design and project description and total budget ($10,000,000) for the Environmental Health and Safety Services Building, which will construct a 34,449 gross square foot facility to house all Environmental Health and Safety staff and facilities for processing and storing hazardous waste materials for all on-campus, extension and research farm activities of the University.

- The project budget of $10,000,000 includes $4,000,000 from the Facilities Overhead Use Allowance and revenue bond proceeds for the project of $6,000,000.

At its June 2003 meeting, the Board acknowledged, as part of its discussion of the future status of active capital projects, that the Environmental Health and Safety Services Building had received final project approval for construction.

The calendar year 2003 bond issuance schedule, approved by the Board in November 2002, included a bond sale in July 2003 to partially finance construction of the project; the sale date was delayed until October due to the June discussion of the status of active capital projects.

Principal on the bonds would be repaid over a period of 15 years, with debt service of approximately $620,000 annually to be paid from the net rents, profits and income derived from the Regulated Materials Facility.
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:**

**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 sources of repayment are the income and revenues to be derived from the operation or use of the facility and from any fees or charges implemented by the Board to students for whom the facilities are made available.

**Project**

The project would consolidate in the new facility the University’s regulated materials operations and Environmental Health and Safety functions to provide program and cost efficiencies, and would respond to fire and life safety deficiencies with the University’s Chemical Waste Handling Facility, which currently houses the regulated materials operations.

At its April 2003 meeting, the Board approved the schematic design and project budget in the amount of $10,000,000 with the sources of funds listed as Revenue Bonds/Chemical Materials Fee ($6,000,000) and Facilities Overhead Use Allowance ($4,000,000).

At its June 2003 meeting, the Board acknowledged, as part of its discussion of the future status of active capital projects, that the project had received final project approval for construction.

**Schedule**

The University anticipates that the project would be bid in January 2004 for completion by the fall of 2005.

**Electronic Bids**

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

**Analysis:**

**Issue Size**

The size of the bond issue, which would not exceed $7,000,000, is estimated to total $6,750,000 including:

- project costs (estimated at $6,000,000);
- debt service reserve (estimated at $620,000);
- bond discount (estimated at $100,000); and
- issuance costs (estimated at $30,000).
Outstanding Bonds

There are no outstanding bonds for the Regulated Materials Facility enterprise as this enterprise would be established with the bond sale.

Sources of Repayment

The University will impose a 3% surcharge on purchases of materials that involve a regulated materials component, including hazardous biological, chemical and radiological materials, as well as cleaning supplies, computer components, and other products subject to regulatory oversight in their use or disposal. Based upon the FY 2002 purchase volumes, the surcharge will generate annual revenue exceeding $900,000.

As a credit enhancement, the bond covenants would include a provision for the Board to charge a Regulated Materials Student Fee to remedy any deficiencies in the net income of the enterprise.

- This proposed “backup student fee” is similar to the backup student fees currently in place for the University of Iowa and Iowa State University Utility and Telecommunications Enterprises. Student fees to support these enterprises have not been charged, nor are they expected to be charged because other revenue sources have and should be sufficient to meet the financial requirements of these enterprises.

The University reports that should revenues from the 3% surcharge on purchases of materials that involve a regulated materials component be insufficient, the University would apply other University revenue sources to support the annual debt service payments and other financial requirements of the bond covenants. Only as a last resort, would the University request the Board to approve implementation of the Regulated Materials Student Fee.

Resolution

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.

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.

Sale Date

The bond sale and award would be scheduled for the October 2003 Board meeting.