

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Preliminary Resolution for the Sale of up to \$8,000,000 Academic Building 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 \$8,000,000 Academic Building 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 \$8,000,000 Academic Building Revenue Bonds, Series I.S.U. 2003.

The bonds would be sold to replace the project notes which were issued in July 2002 to provide interim financing for the Iowa State University Engineering and Teaching Research, Phase II project.

Interim financing was needed when \$7 million of the appropriation made by the 1997 General Assembly for the project was transferred from the Rebuild Iowa Infrastructure Fund to the FY 2002 General Fund by the 2002 General Assembly.

The FY 2004 appropriation by the 2002 General Assembly from the Rebuild Iowa Infrastructure Fund to replace the interim financing was deappropriated by the 2003 General Assembly.

Bonds thus need to be issued to replace the interim financing.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue.

The sale of the bonds, the first sale of new Academic Building Revenue Bonds since 1995, will increase the amount needed for the tuition replacement appropriation from FY 2005 – FY 2018 above the amounts which had been previously estimated.

Based upon the analysis provided by Springsted, Inc., the Board's financial advisor, it is anticipated that the needed tuition replacement appropriation will increase by \$750,000 annually.

Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for Iowa residents who purchase the bonds. Interest on the bonds to be refunded has also been double tax-exempt.

Background:

Project History

The 1997 General Assembly appropriated from the Rebuild Iowa Infrastructure Fund the sum of \$20.9 million over 4 years (FY 1998 – FY 2001) for the Engineering Teaching and Research, Phase II project at Iowa State University.

Hoover Hall, the last component of the Phase II project, is currently under construction and scheduled for completion in December 2003.

The facility, which is located east of Bissell Road and north of Black Engineering and Beyer Hall, includes spaces for the Department of Material Science and Engineering; Engineering Computer Support Services; Department of Mechanical Engineering; Department of Industrial Manufacturing Systems Engineering; and classrooms and an auditorium for use by the entire University.

2002 General Assembly Action

The Second Extraordinary Session of the 2002 General Assembly, which met in late May 2002, transferred \$7 million of the appropriation for the project from the Rebuild Iowa Infrastructure Fund to the FY 2002 State General Fund.

The legislation of the 2002 General Assembly also authorized the Board to issue Academic Building Revenue Bonds to complete the project and appropriated for FY 2004 the sum of \$7 million from the Rebuild Iowa Infrastructure Fund to repay the bonding.

Iowa Code

Iowa Code §76.13 permits a public body which is authorized to issue bonds to issue project notes in anticipation of the receipt of any or a combination of the following:

- Proceeds from the issuance of previously authorized bonds;
- Proceeds to be received pursuant to law or agreement from any state or federal agency; and
- Income or revenues from sources to be received and expended for the project during the project construction or acquisition period.

Interim Financing	<p>In July 2002, the Board issued \$7 million in project notes to provide interim financing for the project as permitted under the above provisions of <u>Iowa Code</u>.</p> <p>The notes, which have a maturity of 18 months, may be called for redemption on any date after August 1, 2003.</p>
2003 General Assembly Action	<p>The 2003 General Assembly deappropriated the FY 2004 funding of \$7 million; the legislation also included a tuition replacement appropriation of \$350,000 from the Rebuild Iowa Infrastructure Fund.</p> <p>The calendar year 2003 bond issuance schedule approved by the Board in November 2002 included an October 2003 sale date if the notes needed to be converted into bonds.</p>
Tuition Replacement Appropriations	<p>Tuition replacement appropriations represent an ongoing commitment of the state to meet the debt service cost of Academic Building Revenue Bonds. Tuition and fee revenues are pledged for debt service payments for the bonds and the tuition replacement appropriation replaces that university revenue.</p> <p>Tuition replacement needs for each university are comprised of debt service payments (principal and interest), less the net interest earned on the sinking and reserve funds.</p>
Electronic Bidding	<p>The Board, at its November 2001 meeting, adopted a resolution approving electronic bidding procedures.</p>

Analysis:

Project Notes	<p>The project notes were issued in the amount of \$7 million for an 18-month period with a provision for redemption on any date after August 1, 2003.</p> <p>No debt service reserve was needed for the Notes and no principal payments have been made during the time that the Notes have been outstanding.</p> <p>Payments of the 2% annual interest on the Notes have been made from the tuition replacement appropriations.</p> <p>Since FY 2004 funds scheduled to repay the interim financing were deappropriated, Academic Building Revenue Bonds need to be issued.</p>
Academic Building Revenue Bonds	<p>The last maturity of the Bonds to be issued is July 1, 2018; the last maturity of Iowa State University Academic Building Revenue Bonds which have been issued to date is July 1, 2020.</p>

Issue Size	<p>The size of the bond issue, which would not exceed \$8,000,000, is estimated to total \$7,790,000 including:</p> <ul style="list-style-type: none">• replacement of interim financing (\$7,000,000);• debt service reserve (estimated at \$743,000); and• issuance costs (estimated at \$47,000).
Tuition Replacement Requirements	<p>The debt service schedule for the bonds will be established so that the FY 2004 principal and interest payments match as closely as possible the \$350,000 appropriation for FY 2004 from the Infrastructure Fund, as referenced above.</p> <p>Annual debt service payments are estimated at approximately \$750,000 from FY 2005 – FY 2018.</p>
Outstanding Bonds	<p>The outstanding principal amount of Iowa State University Academic Building Revenue Bonds is \$58.2 million.</p>
Resolution	<p>A copy of 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 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 the electronic bidding procedures.</p>
Sale Date	<p>The bond sale would be scheduled for the October 2003 Board meeting.</p>