

MEMORANDUM

To: Banking Committee

From: Board Office

Subject: Preliminary Resolution for the Sale of up to \$9,800,000 Dormitory Revenue Refunding Bonds, Series U.N.I. 2002

Date: September 9, 2002

Recommended Action:

Recommend that the Board adopt A Resolution (see G.D. 11) authorizing the Executive Director to fix the date or dates for the sale of up to \$9,800,000 Dormitory Revenue Refunding Bonds, Series U.N.I. 2002.

Executive Summary:

The Banking Committee is requested to recommend, subject to establishment of the revised bond issuance schedule for October and November 2002 (see B.C. 3), that the Board adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$9,800,000 Dormitory Revenue Refunding Bonds, Series U.N.I. 2002.

As discussed previously with the Banking Committee, interest rates are historically low and the yield curve very steep. This scenario is particularly advantageous for current refundings (occurring within 90 days of the call date) since no escrow needs to be established.

As discussed in detail in B.C. 3, there is an available calendar year 2002 date for the refunding of University of Northern Iowa Dormitory Revenue Bonds.

The Board's financial advisor (Springsted), bond counsel (Ahlers Law Firm) and the University recommend proceeding with the refunding.

The 1992 Dormitory bonds, with an outstanding principal of \$7,560,000, became callable on July 1, 2002 and can be called on any interest payment date after that time. The next interest payment date is January 1, 2003. The outstanding maturities of the bonds would be called and principal payments made on that date.

The refunding of 1992 bonds makes possible the refunding of the outstanding Series 1964 and Series 1967-C Dormitory Revenue Bonds, which are outstanding in the total amount of \$1,850,000. (A refunding of only these two series would not be cost effective.)

The restrictive provisions of the 1960's bond covenants will expire with the refunding of the 1964 and 1967-C issues.

The net and present value savings from the refunding are estimated to total more than \$1.0 million and \$.8 million, respectively. The maturity schedules for the bonds would not change with the refunding.

Background:

Interest Rates	<p>Bond coupon rates and the net interest rate for Regent bonds are very dependent upon market conditions at the time of issuance.</p> <p>As interest rates decline, bonds can be refunded and annual and total debt service costs reduced.</p>
Definition of Refunding	<p>A refunding is the issuance of bonds whose proceeds are used to pay principal, interest and/or call premium, if any, of an existing debt obligation; the old (refunded) debt is replaced with new (refunding) bonds.</p>
Electronic Bidding	<p>The Board, at its November 2001 meeting, adopted a resolution approving electronic bidding procedures.</p>

Analysis:

Bonds to be Refunded	<p>The proceeds from the sale of the proposed bonds would be used to refund bond principal of the Board's Dormitory Revenue Bonds, Series U.N.I. 1964, 1967-C and 1992.</p>
1964 Series	<p>The 1964 bonds were issued in the amount of \$6,250,000 to pay the costs of constructing and equipping Campbell Hall and two of the four dormitories in the Regents Complex, which includes Rider, Noehren, Shull and Hagemann Halls.</p> <ul style="list-style-type: none">• The bonds became callable on January 1, 1997, without payment of any call premium;• The outstanding principal is \$600,000;• The last maturity is July 1, 2004; and• The coupon (interest) rates on the two remaining maturities are 3.7% (July 1, 2003 principal) and 3.0% (July 1, 2004 principal).

1967-C Series	<p>The 1967-C bonds were issued in the amount of \$6,200,000 to pay the costs of constructing Bender and Dancer Halls and the Towers Dining Center. The outstanding principal on these bonds is \$1,250,000; the last maturity is July 1, 2005.</p> <ul style="list-style-type: none">• The bonds became callable on July 1, 1998, without payment of any call premium;• The outstanding principal is \$1,250,000;• The last maturity is July 1, 2005; and• The coupon (interest) rates on the outstanding maturities are 4.0%.
1992 Series	<p>The 1992 bonds were issued in the amount of \$9,145,000 to pay the costs of constructing and equipping the Residence on the Hill (ROTH).</p> <ul style="list-style-type: none">• The bonds became callable on July 1, 2002, and may be called on any interest payment date without any call premium;• The outstanding principal is \$7,560,000;• The last maturity is July 1, 2018; and• The coupon (interest) rates on the outstanding maturities range from 5.75 % to 6.0%.<ul style="list-style-type: none">• Current interest rates for bonds maturing in the same years are significantly lower.
Refunding Bond Issue	<p>The size of the refunding bond issue would not exceed \$9,800,000 including issuance costs estimated at \$50,000.</p>
Internal Revenue Service Requirements	<p>Under Internal Revenue Service regulations, a current refunding must occur no more than 90 days prior to the payment of the refunded bonds.</p> <ul style="list-style-type: none">• The sale of the refunding bonds would close in mid November and the refunded bonds would be called on January 1, 2003, meeting the requirements of the 90-day time period.
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>