

**MEMORANDUM**

**To:** Banking Committee  
**From:** Board Office  
**Subject:** Reimbursement Resolution, Utilities – Power Plant Turbine Generator #6 (ISU)  
**Date:** September 8, 2003

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**Recommended Action:**

Recommend that the Board adopt A Resolution (see G.D. 7) declaring an official intent under Treasury Regulation 1.150-2 to issue debt to reimburse the Iowa State University of Science and Technology Utility System for certain original expenditures paid in connection with specified projects.

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**Executive Summary:**

Iowa State University requests adoption of a resolution which will permit the University's Utility System to be reimbursed from a future Utility System bond issue for expenditures associated with the Utilities – Power Plant Turbine Generator #6 project.

The Board approved the project description and total budget (\$12,000,000) for the Turbine Generator project at its January 2003 meeting.

The calendar year 2003 bond issuance schedule approved by the Board in November 2002 included a Utility System Revenue Bond sale for the project in November 2003.

The reimbursement resolution is being submitted at this time to ensure maximum reimbursement capability under regulations of the federal Internal Revenue Code. Pursuant to these regulations, project payments made not more than 60 days prior to adoption of the resolution are eligible for reimbursement from future bond issues.

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**Background:**

Treasury  
Regulations

United States Department of Treasury Regulation 1.150-2 provides the rules for the reimbursement from future bond proceeds of expenditures originally paid from sources other than bond proceeds. When the bonds are sold, a portion of the bond issue (reimbursement bond) is allocated to reimburse the original expenditure that was paid before the bond issue date.

**Project Background** The cost of purchased electricity has increased so that it is now more economical to generate electricity in the University's campus power plant than to purchase it.

However, the University's power plant does not currently have sufficient capacity to reliably generate the amount of electricity needed to serve all of the campus electrical needs.

**Project Scope** The project, as approved by the Board in January 2003, would increase the electrical generating capacity of the power plant by replacing an existing 3 megawatt turbine generator, installed in 1948, with a new 15 megawatt generator.

The University reports that this upgrade would allow the power plant to supply for several years all of the campus electrical needs.

The project would also include necessary structural, mechanical and electrical alterations to the power plant to accommodate the installation of the new generator and connection to the power plant systems.

Since this is a utility upgrade project within the confines of an existing building, the University did not need to submit information in response to the Board's capital project evaluation criteria, as approved at its June 2003 meeting, for new construction and major renovation projects.

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**Analysis:**

**Bond Issuance Schedule** The calendar year 2003 bond issuance schedule approved by the Board in November 2002 included the sale in November 2003 of approximately \$15.0 million (currently estimated at \$13.8 million) of Iowa State University Utility System Revenue Bonds for the Turbine Generator #6 project.

**Financing until Bonds Issued** Until the bonds are issued, financing for the project would be provided by Utility Enterprise Revenues.

**Treasury Regulations** Treasury regulations require that project costs must be reimbursed from the bond proceeds not later than the later of 18 months after the capital expenditures are paid or 18 months after the property is placed in service.

**Resolution** A copy of the reimbursement resolution prepared by the Ahlers law firm and reviewed by Springsted, Inc. is available from the Board Office.