

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Bond Refundings
Date: January 19, 2005

Recommended Action:

Consider the proposed bond refundings in Agenda Items 12a and 12b.

Executive Summary:

Periodically, the Board Office and Springsted, the Board's financial advisor, evaluate bonds for refunding potential. As interest rates continue to remain low, bonds can be refunded and annual and total debt service costs reduced.

Academic Building Revenue Bonds In the case of Academic Building Revenue Bonds, reduced annual debt service reduces the amount needed for the tuition replacement appropriation.

Tuition Replacement Appropriations 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.

Tuition replacement needs for each university are comprised of debt service payments (principal and interest), less the net interest earned on the construction, sinking and reserve funds.

Bond Schedule The bond issuance schedule for calendar year 2005, established by the Board in August 2004, included a planned sale of \$25 million in Hospital Revenue Bonds in March 2005. The UIHC now envisions selling the remainder of the legislatively authorized bonds (approximately \$75 million) as variable rate bonds later in calendar year 2005. The Board Office worked with Springsted to determine the potential for any refunding bonds which could be sold in March.

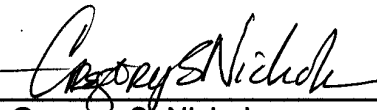
Calendar Year 2005 The issuance of two series of refunding bonds is proposed for March as detailed in Agenda Items 12a and 12b. These Academic Building Revenue Refunding Bonds would be sold for the University of Iowa and the University of Northern Iowa. The first sale would refund the SUI 1995 and 1996 series bonds and the second sale would refund the UNI 1995 series bonds.

The bond schedule includes the possible sale of additional refunding bonds in May and June 2005. The Board Office and Springsted in consultation with the universities and Ahlers & Cooney are continuing to evaluate whether it would be cost effective to refund additional bonds in those months.

Definition of Refunding	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.
Current Refunding	The proposed refundings would be current refundings, as they would close within 90 days of the call date (July 1, 2005) and, therefore, no escrow needs to be established.
Internal Revenue Service Requirements	Under Internal Revenue Service regulations, a current refunding must close no more than 90 days prior to the payment of the refunded bonds. The sale of the refunding bonds proposed in Agenda Items 12a and 12b would take place at the March meeting and would close in mid April. The refunded bonds would be called on July 1, 2005, meeting the requirements of the 90-day time period.
Double Tax-Exempt	Interest on the refunding 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.
Interest Rates	Bond coupon rates and the net interest rate for Regent bonds are very dependent upon market conditions at the time of issuance. The net interest rate for Academic Building Revenue Bonds (including refunding bonds) issued since 1971 has ranged from a low of 2.87% in 2003 to a high of 11.19% in 1981.
Electronic Bidding	The Board, at its November 2001 meeting, adopted a resolution approving electronic bidding procedures. The resolution includes a provision permitting the Board to receive bids by means of both sealed and electronic communication.



 Joan Racki

Approved: 

 Gregory S. Nichols

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