

Contact: Joan Racki

**PRELIMINARY RESOLUTION FOR THE SALE OF UP TO
\$17,250,000 DORMITORY REVENUE REFUNDING BONDS, SERIES I.S.U. 2006**

Action Requested: Consider adopting A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$17,250,000 Dormitory Revenue Refunding Bonds, Series I.S.U. 2006.

(ROLL CALL VOTE)

Executive Summary: The Board is asked to consider adoption of a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$17,250,000 Dormitory Revenue Refunding Bonds, Series I.S.U. 2006. The Series 2006 bonds would be used to refund in advance of maturity the 2006 – 2027 maturities totaling \$16,375,000 of the Dormitory Revenue Bonds, Series 1999B, which were issued to partially fund construction of Phase 2 of Hawthorn Court, now known as Frederiksen Court.

The sale of the refunding bonds would be scheduled for the March 2006 Board meeting. The bond issuance schedule approved by the Board in November 2005 included possible refundings in March 2006 depending upon market conditions.

The proposed refunding would be an advance refunding as the refunding would occur prior to the initial call date of July 1, 2010. The proceeds from the sale of the refunding bonds, net of issuance expenses, would be invested in U.S. Treasury Obligations to fund an escrow account which would be used to redeem the 2006 – 2009 maturities as they come due and the 2010 – 2027 maturities on July 1, 2010. The refunding would not extend the maturity of the bonds beyond the last scheduled maturity of the 1999B Series bonds.

Interest rates on the refunding bonds are anticipated to be lower than the interest rates on the refunded bonds for the same years. (Rates on the 1999B Series bonds range from 6.0% in 2010 to 5.6% in 2027.) Springsted, Inc., the Board's financial advisor, has projected that the refunding would result in a present value savings of more than \$900,000. 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.

The University's Residence System is a self-supporting operation and receives no state appropriations. Debt service on the bonds would continue to be paid from the net rents, profits and income of the Residence System.

Additional Information: Under the provisions of Iowa Code §§262.55 to 262.66, the Board is authorized to construct, equip, improve, repair, remodel, operate and maintain residence halls and dormitories, including dining and other incidental facilities, at the universities. The Board is further authorized to borrow money to finance the construction or improvements and to refund such indebtedness.

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. When the refunding occurs more than 90 days prior to the first call date of the bonds to be refunded, the refunding is referred to as an advance refunding.

The "not to exceed" issuance amount of \$17,250,000 included in the preliminary resolution represents the maximum amount of the sale to allow for interest rate fluctuations. It is anticipated that the refunding issue will have a principal amount of \$16,805,000, including issuance costs estimated at \$84,000. The refunding bonds issuance amount must be higher than the sum of the maturities to be refunded because the refunding escrow account securities are invested at current market rates which are lower than the interest rates payable on the outstanding bonds until the call date.

The Series 1999B Bonds were used to partially finance Phase 2 of the Hawthorn Court Development project. The Phase 2 project provided for construction of apartment units with 984 beds.

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 & Cooney, P.C. 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 the electronic bidding procedures.