AGENDA ITEM 15

MEMORANDUM

To Board of Regents

From: Board Office

Subject: Preliminary Resolution for the Sale of up to $10,000,000 Center for University Advancement Revenue Refunding Bonds, Series S.U.I. 2004

Date: May 10, 2004

Recommended Action:

Adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to $10,000,000 Center for University Advancement Revenue Refunding Bonds, Series S.U.I. 2004.

(ROLL CALL VOTE)

Executive Summary:

The Board is asked to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to $10,000,000 Center for University Advancement Revenue Refunding Bonds, Series S.U.I. 2004.

The Series 2004 bonds would be used to refund the 2005 – 2012 maturities of the 1995 Center for University Advancement Revenue Bonds which were issued to partially finance construction of the University of Iowa Levitt Center for University Advancement. The University of Iowa Foundation and University of Iowa Alumni Association, both affiliated organizations of the University, have offices located within the Levitt Center.

The debt service on the 1995 bonds is backed by a lease with the University of Iowa Foundation; the Foundation's basic rental rate is equal to the required annual debt service payment.

The University of Iowa Foundation Board of Directors has requested that the University of Iowa and Board of Regents proceed with a refunding and restructuring on its behalf at the earliest opportunity.

University of Iowa President Skorton has advised the Board Office that it is the judgment of the University of Iowa Foundation Board of Directors that the refunding and restructuring would facilitate the Foundation's ability to raise private funds for the benefit of the University. A memorandum from Michael New, President of the University of Iowa Foundation, to University of Iowa Vice President True, outlining the rationale for the request is attached.

The proposed refunding would be an advance refunding as the refunding would occur prior to the call date of July 1, 2005. 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 2005 - 2012 maturities on July 1, 2005.

Principal on the refunding bonds would be repaid over a period of 15 years, extending the maturity on the bonds from 2012 until 2019, with debt service of approximately $845,000 annually to continue to be paid from the rental income received by the University from its lease with the Foundation. The existing annual debt service is approximately $1.4 million.

While interest rates on the refunding bonds are anticipated to be lower than the interest rates on the refunded bonds for the same years, the restructuring of the bond issue to extend the last maturity until 2019 is likely to result in a present value loss of approximately $200,000.

This loss would be borne directly by the Foundation through its lease arrangement with the University.

The Board’s financial advisor, Springsted, Inc., has discussed the proposed refunding and restructuring with the credit rating agencies and has formed an opinion that this proposed refunding will not affect the credit rating of either the University or the University of Iowa Foundation.

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

The calendar year 2004 bond issuance schedule approved by the Board in November 2003 did not include a sale in June 2004. If the Board authorizes proceeding with the refunding, the sale of the refunding bonds could be scheduled for the June 2004 Board meeting.

Since the Levitt Center is being used by the University of Iowa Foundation in the private business of a 501(c)(3) entity, it will be necessary, according to bond counsel, to conduct a public hearing on the matter of the issuance of the refunding bonds pursuant to Federal tax laws. A hearing was also held when the bonds were issued in 1995.

<u>Background</u>:

Statutory Provisions	Under the provisions of the <u>Iowa Code</u> Chapter 262, the Board is authorized to construct, equip, maintain and operate self-liquidating and revenue producing facilities at the universities; the Board is also authorized to borrow money to construct or improve these facilities. The sources of repayment are the income and revenues to be derived from the operation or use of the facility and from any fees or charges implemented by the Board to students for whom the facilities are made available.
Definition of a 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.
Advance Refunding	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 proceeds of the refunding bond issue, net of issuance costs, are invested in U.S. Treasury Obligations to fund an escrow account, which is then disbursed on the first call date.
Project History	In 1993, the Board of Regents authorized the University of Iowa to proceed with planning for a Center for University Advancement to provide office space for the University of Iowa Foundation, the University of Iowa Alumni Association, and the Alumni Services and Records Department of the University. In July 1994, the Board approved the project description which included a facility of approximately 112,200 gross square feet. In addition to housing the entities referenced above, the facility was designed to serve as a welcoming and meeting center for strategic institutional advancement purposes. In April 1995, the Board of Regents sold $15,335,000 Center for University Advancement Revenue Bonds, Series S.U.I. 1995 to provide partial financing (approximately $12 million in bond proceeds) for construction of the Center for University Advancement, for which the last revised project budget was approximately $21 million. The first principal payment on the bonds was made in 1998 and the last maturity on the bonds is July 1, 2012. Other sources of funds for construction included University of Iowa Foundation gift moneys and investment income on the bond proceeds. The facility, which is known as the Levitt Center for University Advancement, is owned by the University and leased to the Foundation. The lease runs until June 30, 2046.

The 1995 bonds are payable solely from rental payments from the lease of the space to the Foundation by the University. In 1995, the Foundation indicated that the primary source of the lease payments was expected to be receipts of gifts for the project to be received over several years. Secondary sources of payment are the unrestricted net revenues and unrestricted fund balances of the Foundation.

After all the debt service payments on the bonds have been made (proposed to be 2019 after the sale of the refunding bonds), the rental rate will be $1,000 per year payable in advance on July 1 of each year for the remaining lease term.

The Foundation is responsible, at its own expense, to pay insurance, utilities, operations and maintenance, and to keep the facility in good repair.

Electronic Bidding

The Board, at its November 2001 meeting, adopted a resolution approving electronic bidding procedures.

Analysis:

Request

The University of Iowa Foundation has requested that the University of Iowa request that the Board of Regents refund and restructure the outstanding debt on the Levitt Center for University Advancement.

The Foundation wishes to take advantage of existing favorable interest rates, rather than waiting until the earliest call date of July 1, 2005 when interest rates are likely to be higher.

Refunding the bonds would reduce the Foundation's annual lease payments to the University from approximately $1.4 million to $845,000, thereby allowing the Foundation to increase resource commitments for direct fund raising in support of its capital campaign goal of $1 billion, which was recently announced.

Bonds to be Refunded

The proceeds from the sale of the proposed refunding bonds would be used to refund the 2005 – 2012 maturities of the Board's Center for University Advancement Bonds, Series 1995.

Refunding Bond Issue

The amount of $10,000,000 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 $9,750,000, including issuance costs estimated at $75,000.

The anticipated sale amount of refunding bonds is less than the outstanding principal of the bonds to be refunded ($9,875,000) since a portion of the prior issue debt service reserve fund can be used as a source of funds for the refunding.

The proposed refunding includes a restructuring of the maturity schedule, extending the maturity from 2012 to 2019.

Funds from the escrow account to be established from proceeds of the refunding bonds will be used to pay the July 1, 2005 principal payments on the refunded bonds (1995 bonds) and to pay the July 1, 2006 – July 1, 2012 maturities when they are called on July 1, 2005 (the first call date).

Sources of Repayment

The debt service will continue to be backed by a lease with the University of Iowa Foundation whereby the basic rental rate is equal to the required annual debt service payment. Bond counsel has advised that the refunding will require an amendment to the existing lease, which would be included with the resolutions to be adopted at the time of the sale.

Present Value Analysis

While current interest rates for bonds maturing in 2005 – 2012 are lower than the interest rates on the outstanding 1995 bonds which range from 4.95% in 2005 to 5.4% in 2012, extending the last maturity from 2012 to 2019 is likely to result in a present value loss of approximately $200,000 from the refunding.

Board of Regents refundings are normally undertaken when they result in present value savings even if the maturities of the bonds are extended, which has been a rare occurrence.

The University of Iowa has provided a unique set of circumstances to justify the request to refund the 1995 bonds which is likely to result in a present value loss. This loss will be borne by the University of Iowa Foundation and will not affect the University's operating performance.

The Board Office does not envision supporting other refundings which would have a present value loss, absent any compelling reason.

Resolution

The resolution authorizing the Executive Director to fix the date or dates for the sale of 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 a sealed and electronic communication; the receipt by electronic communication is consistent with the resolution adopted by the Board in November 2001 approving electronic bidding procedures.

Sale Date

The bond sale and award would be scheduled for the June 2004 Board meeting.

Joan Racki
Joan Racki

Approved: Gregory S. Nichols
Gregory S. Nichols

TO: Doug True

FROM: Michael New

DATE: May 5, 2004

SUBJECT: Request for Advance Refunding of Levitt Center for University Advancement Bonds

You have requested additional information concerning the request of the UI Foundation to The University of Iowa to refund and restructure the outstanding debt on the Levitt Center for University Advancement (LCUA). I hope the following will be useful.

The Executive Committee and Finance Committee of the UIF Board of Directors have discussed on several occasions that the Foundation's ability to serve the development needs of the UI would be enhanced if it were possible to achieve an advance refunding and restructuring of the debt related to the LCUA. Key elements in their discussions may be summarized as follows:

1. Current interest rates are favorable and are perceived as likely to rise. The committee members felt taking advantage of these favorable rates would be a prudent step.
2. Committee members also felt extending the debt to a longer maturity more appropriate to the life of the asset would be reasonable and advisable from a business viewpoint.
3. Net annual cash flow savings anticipated from the restructuring could be used to assist the University and its component units to expand the fund-raising efforts regarded as essential to achieving success in the current $1 billion comprehensive campaign and beyond.

Following discussion with UI officials, the UIF Executive Committee (comprised of Charles M. Kierscht, chairman and members James C. Hanson, Marvin A. Pomerantz, Carroll J. Reasoner, Gary F. Seamans, David J. Skorton, Robert W. Verhille and Catherine Zaharis) on April 23, 2004, passed a motion requesting the UI to explore and, if possible, proceed with the advance refunding at the earliest opportunity.

The committee recognized that, in a practical sense, the debt restructuring would have the result of lowering the annual lease payments of the UIF to the UI. This annual cash flow savings can be redirected to support the effort to raise additional private gift funds for the UI. The UIF Board of Directors believes strongly that the purpose of the UIF is to serve the private fund raising needs of the UI and that the advance refunding of the LCUA bonds and restructuring of the debt will facilitate our ability to do so.

Thank you.

c: President Skorton
Charles M. Kierscht