MEMORANDUM

To Board of Regents

From: Board Office

Subject: Sale and Award of $9,750,000 (estimated) Center for University Advancement Revenue Refunding Bonds, Series S.U.I. 2004

Date: June 7, 2004

Recommended Action:

Adopt the following resolutions, subject to receipt of acceptable bids:

1. A Resolution providing for the sale and award of $9,750,000 (estimated) Center for University Advancement Revenue Refunding Bonds, Series S.U.I. 2004, and approving and authorizing the agreement of such sale and award.

2. A Resolution authorizing and providing for the issuance and securing the payment of $9,750,000 (estimated) Center for University Advancement Revenue Refunding Bonds, Series S.U.I. 2004, to pay the costs of refunding the 2005 through 2012 maturities of the Center for University Advancement Revenue Bonds, Series S.U.I. 1995, dated May 1, 1995, funding the debt service reserve fund, and paying costs of issuance and approving a Refunding Trust Agreement.

3. A Resolution authorizing the execution of an Amended and Restated Lease of the Center for University Advancement located on the campus of The State University of Iowa by and between the Board of Regents, State of Iowa, and The State University of Iowa Foundation.

(ROLL CALL VOTE)

Executive Summary:

The Board is asked to adopt three resolutions related to the sale, award and issuance of Center for University Advancement Revenue Refunding Bonds, Series S.U.I. 2004.

At its May 2004 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold 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 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 of the 1995 bonds on July 1, 2005.

It is anticipated that the refunding issue will have a principal amount of $9,750,000 although this amount may change slightly since the amount of bond proceeds required to fund the escrow account will be dependent upon the actual yield of the new bonds and available investment yields.

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 $870,000 annually which will 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. The loss is currently estimated at approximately $360,000.

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 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.

Since the Levitt Center is being used by the University of Iowa Foundation in the private business of a 501(c)(3) entity, it is 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. The public hearing has been scheduled for June 10, 2004; a report on the hearing will be available at the Board meeting.

Background:

Statutory Provisions

Under the provisions of Iowa Code 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.

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 and interest earnings on the escrow account, 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, the rental rate will be $1,000 per year payable in advance on July 1 of each year for the remaining lease term plus payment of operations and other expenses as provided in the Lease.

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

Analysis:

Request

The University of Iowa Foundation requested that the University of Iowa ask the Board of Regents to 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 $870,000, thereby allowing the Foundation to increase resource commitments for direct fund raising in support of its recently announced capital campaign goal of $1 billion.

Bonds to be Refunded

The proceeds from the sale of the 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

It is anticipated that the refunding issue will have a principal amount of $9,750,000, including issuance costs estimated at $75,000. The exact issue amount will be variable up to the acceptance of the winning bid because the amount of the bond proceeds required to fund the escrow account for the 1995 bonds will be dependent upon the actual yield of the new bonds and investment yields.

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 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 requires an amendment to the existing lease. The amended lease is summarized in Attachment A and approval is requested as part of the resolutions to be adopted with the sale of the refunding bonds.

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 $360,000 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.
Receipt of Bids	The receipt and opening of bids is scheduled for 10:00 a.m. on Wednesday, June 16, 2004 and the award is scheduled for later that day. A representative of Springsted, Inc. will report on the bids received and make a recommendation to the Board for award of the bonds.
Resolutions	Copies of the resolutions, which were prepared by Ahlers & Cooney, P.C. and reviewed by Springsted, Inc., are available from the Board Office.

Bond Specifics	Average Maturity:	8.7 Years
	Bonds Dated:	July 1, 2004
	Interest Due:	January 1, 2005, and each July 1 and January 1 to maturity
	Interest Exemption:	Exempt from federal and state taxes for individual purchasers who are residents of Iowa
	Principal Due:	July 1, 2005 - 2019
	Optional Call:	Bonds maturing on or after July 1, 2015 are callable commencing July 1, 2014 and any date thereafter at par
	Denomination:	$5,000 and integral multiples thereof

Joan Racki

Approved: Gregory S. Nichols

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ATTACHMENT A

SUMMARY OF KEY PROVISIONS OF THE LEASE

Following is a summary of certain provisions of the Lease. The Lease will amend and restate in its entirety the original lease for the Facility dated April 19, 1995. The summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the complete Lease.

Period

The Lease begins on the date it is executed and runs until June 30, 2046.

Rental Rate

Until all the Bonds and interest thereon have been paid in full, the Basic Rental will be the sum of the principal and interest payments due on the Bonds and Parity Bonds, less funds available in the Sinking Fund for that purpose, established in the Bond Resolution. Lessee will also pay Additional Basic Rent, which includes the operational expenses of the Facility.

The Foundation bears all risk of damage or destruction in whole or in part to the Facility. As long as any of the principal and interest on the Bonds remains unpaid, the Foundation's obligations to pay the Basic Rental will be absolute and unconditional.

After the principal and interest due on all Bonds have been paid in full, the Basic Rental will be $1,000 per year payable in advance on July 1 of each year for the remaining Lease term.

Use of Space

The Foundation will use the Facility as its principal place of activities in advancing and supporting the University, and to provide offices and facilities for activities of the University and the Alumni Association.

Repairs, Maintenance and Alterations

The Foundation will be responsible, at its own expense, to keep the Facility in good repair and will make all of the following repairs as deemed necessary: interior and exterior, structural and nonstructural, ordinary as well as extraordinary.

The Foundation has the right, at its sole cost and expense, to make additions, alterations and changes to the Facility subject to approval of the Board.

Liability and Casualty Insurance

The Foundation shall maintain the following kinds of insurance during the term of the Lease:

a) property loss insurance including floods and earthquakes, to the extent that earthquake coverage is obtainable;

b) comprehensive general public liability insurance and landlord's liability insurance protecting the Board and the Foundation;

c) workers' compensation insurance for all employees of the Facility; and

d) rental interruption insurance.

Damage, Destruction and Condemnation

In any case of damage to, destruction of or condemnation of the Facility, the Foundation may use the net proceeds of any insurance or compensation to (a) make repairs and improvements to the Facility or (b) prepay the Basic Rental in whole or in part to redeem outstanding Bonds.

Special Agreements

<u>Maintenance of Corporate Existence</u>

The Foundation agrees that it will at all times maintain its existence as a nonprofit corporation and that it will take no action to alter, change or destroy its status as a nonprofit corporation or its status as an organization described in Section 501(c)(3) of the Internal Revenue Code and exempt from federal income taxation.

<u>Tax Exemption</u>

The Board and Foundation agree that they will ensure that all activities to be housed in the Facility will not adversely affect the exemption from Federal income taxes of interest on any of the Bonds.

<u>Sublease</u>

The Foundation may sublease the Project subject to a number of specified conditions.

<u>Right to Terminate Lease</u>

The Board may terminate the Lease beginning ten years after the date when the Bonds have been paid in full. The right may be exercised by giving three years advance written notice of termination to the Foundation, In the event the Board exercises its right to terminate the Lease, it will provide the Foundation, for its use, mutually agreeable reasonably comparable facilities on the University campus.

<u>Maintenance of Income Levels</u>

The Foundation agrees to prepare and approve a budget for the next fiscal year showing that System Income, Other Income and Gift Income together with earnings on the funds established in the Bond Resolution are sufficient to satisfy the coverage requirements set forth in the Bond Resolution.

Events of Default

Events of default in the Lease are:

(a) Failure of the Foundation to pay any Basic Rental;

(b) Failure of the Foundation to pay Additional Basic Rental; or

(c) Failure of the Foundation to observe and perform any other condition or agreement specified in the Lease for a period of thirty days after written notice from the Board. The Board may grant an extension of time for the default to be remedied.

Remedies on Default

The Board may take one or more of the following steps:

(a) The Board may declare an amount equal to all amounts then due and payable on the Bonds immediately due and payable.

(b) The Board may take possession of the Project with or without terminating the Lease. The Board may release the Facility or sub-lease to another tenant with the Foundation remaining liable for the difference between the Basic Rental payment due during the Lease term and rent payments paid by the new lessee.

(c) The Board may take whatever action at law or in equity may be necessary to collect Basic or Additional Rental or to enforce the Foundation's obligations under the Lease.