AGENDA ITEM 9

BOARD MEMORANDUM

TO: Board of Regents, State of Iowa

FROM: Joan Racki

DATE: June 1, 2005 GSN

SUBJ: Preliminary Resolution for the Sale of Athletic Facilities Revenue Bonds, Series S.U.I. 2005A and S.U.I. 2005B

Recommended Action:

Adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to $25,000,000 Athletic Facilities Revenue Bonds, Series S.U.I. 2005A and up to $15,000,000 Athletic Facilities Revenue Bonds, Series S.U.I. 2005B (Taxable).

(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 two series of Athletic Facilities Revenue Bonds scheduled to be sold at the August 2005 Board meeting; the bonds would finance a portion of the cost of the Kinnick Stadium Renovation project.

At its February 2005 meeting, the Board adopted a resolution authorizing the issuance of not more than $120,000,000 in revenue bonds to finance the Kinnick Renovation project; additional costs associated with the renovation including the scoreboard, some furnishings and concession equipment; the refunding of outstanding Athletic Facilities Revenue bonds; the funding of the debt service reserve fund; and the paying of the issuance costs.

The sum of $25,000,000 in double tax exempt bonds (exempt from federal and state taxes for individuals who are Iowa residents and purchase the bonds) was sold for the project at the February 2005 Board meeting.

The August 2005 proposed sale, which was included on the calendar year 2005 bond issuance schedule approved by the Board in August 2004, provides for the issuance of the second (double tax-exempt) and third (taxable) series of bonds for the Kinnick Stadium Renovation.

- Taxable bonds need to be issued for the project due to an allocation of private use (trade or business of a nongovernmental entity), including concessions areas and certain advertising as well as other private uses; under Internal Revenue Service requirements, taxable bonds need to be issued when the private use exceeds certain thresholds.

Principal on the estimated $25,000,000 in double tax exempt bonds (Series 2005A) and the estimated $15,000,000 in taxable bonds (Series 2005B) would be repaid over a period of 25 years, with debt service payments being made from income of the Athletics Facilities System.

- Annual debt service payments on the Series 2005A bonds are estimated to range from $0.9 million in FY 2006 (interest only) to $1.8 million in FY 2019 and later years.

- Debt service payments on the Series 2005B bonds are estimated to be approximately $1.1 million annually except in FY 2006 when interest only will be paid (estimated at $0.7 million).

Two additional bond sales are anticipated in calendar year 2006.

Background:

Statutory Provisions

Under the provisions of the 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.

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.

Athletic Facilities System Revenue Bonds

The University and the Board established more than 20 years ago a bonded enterprise (Athletic Facilities System) for issuing bonds to finance athletic and recreational buildings and facilities. Carver-Hawkeye Arena and renovation of the Fieldhouse (1980 bond issue, refunded in 1992, last maturity of July 1, 2004), and west campus athletics and recreation projects, including the Roy G. Karro Building, University of Iowa Athletics Hall of Fame and soccer facilities (2000 bond issue), were partially financed in this way.

The Athletics Facilities System is defined in the bond covenants as the System of athletic and recreational buildings and facilities of the University, including Carver-Hawkeye Arena and Kinnick Stadium, and other properties which are used as part of the System.

Project Background

Kinnick Stadium, constructed in 1929, suffers from a number of deficiencies related to the south end zone seating area, plumbing systems, number of toilet facilities and concession stands, accessibility and egress routes, and the press box.

Project Scope

The project, as approved by the Board in March 2004, would address the most critical deficiencies with the stadium, including replacement of the south end zone bleacher area and west side press box; renovation of the concourse, concession and restroom areas; and replacement of mechanical, plumbing, and electrical systems.

Construction Timeline	In August 2004, the Board approved the University proceeding with the project in two major phases with the first phase beginning at the completion of the 2004 football season, with the second phase scheduled to begin at the conclusion of the 2005 football season. Substantial completion of the project is expected prior to the 2006 football season.
Electronic Bids	The Board, at its November 2001 meeting, adopted a resolution approving electronic bidding procedures.

<u>Analysis</u>:

Bond Issuance

Based upon the University's analysis presented at the February 2005 Board meeting, not more than $120,000,000 in Athletic Facilities Revenue Bonds would be issued for the Kinnick Stadium Renovation project and to refund the 2006 – 2021 maturities of the Athletic Facilities Revenue Bonds, Series, 2000, as well as providing funds to establish the debt service reserve funds, and to pay the issuance costs.

The sum of $25,000,000 in double tax exempt bonds was sold at the February 2005 Board meeting.

- The 2006 – 2021 maturities ($9,100,000) of the 2000 Series bonds were advance refunded (before the call date) as part of the February 2005 bond issue.

Two series of bonds ($25,000,000 - double tax exempt) and $15,000,000 - taxable) are proposed to be sold in August 2005.

- Based upon the allocation of private use reasonably anticipated to occur after the renovation of Kinnick Stadium, the Series 2005B bonds will be taxable. Private use is anticipated to arise from the concessions areas, certain advertising, as well as other potential private uses. To provide maximum flexibility, the amount of taxable bonds to be issued is in excess of what is currently anticipated to account for private use.

The proceeds of the two proposed August bond issues are expected to be applied as follows:

	$25,000,000 Double Tax Exempt	$15,000,000 Taxable
Project Costs*	$22,670,000	$13,595,000
Deposit to Reserve Fund*	1,866,400	1,119,225
Bond Discount*	375,000	225,000
Issuance Costs*	88,600	60,775
	$25,000,000	$15,000,000
Debt Service Payments*	Increasing from $0.9 million in FY 2006 (interest only) to $1.8 million in FY 2019 and later years	Approximately $1.1 million annually except in FY 2006 when interest only will be paid (estimated at $0.7 million)

* Projected (estimated) amounts (actual amounts will not be know until after the sales)

Sources of Repayment

Debt service payments on the bonds would be made from income of the Athletics Facilities System including existing student fees, revenue from priority seating; revenue from suites, indoor and outdoor club seats; capital campaign gifts for the renovation; and increased concession income.

Other potential sources of revenue available for debt service payments include scoreboard/sponsorship, ticket surcharge, and net revenue from a 7th home game in future years.

Increased student fees would only need to be charged should other revenue not be available to pay the debt service or maintain coverage ratios.

Additional Bonds

Additional bonds for the project, to be issued on a parity with the outstanding bonds, would be sold in calendar year 2006 under the schedules presented to the Board in March 2004 and February 2005.

Resolution

The resolution authorizing the Executive Director to fix the date or dates for the sale of the bonds, which was prepared by Ahlers & Cooney 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 electronic bidding procedures.

Sale Date

The bond sales and awards would be scheduled for the August 2005 Board meeting.