

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Resolution Authorizing and Providing for the Issuance of University of Iowa Facilities Corporation Revenue Bonds, Series 2004
Date: July 21, 2004

Recommended Action:

Adopt A Resolution Authorizing and Approving the Execution and Delivery of the First Supplement to Indenture, the Bond Purchase Agreement, the Continuing Disclosure Certificate, the 2004 Lease Amendments, and Authorizing and Providing for the Issuance of University of Iowa Facilities Corporation Revenue Bonds (Roy J. and Lucille A. Carver Biomedical Research Building Project) \$25,000,000 Revenue Bonds, Series 2004, and Providing for the Payment Thereof.

(ROLL CALL VOTE)

Executive Summary:

The Board is asked to adopt a resolution authorizing and approving various lease documents, indenture, a bond purchase agreement and certificates related to the sale of University of Iowa Facilities Corporation Revenue Bonds for the Roy J. and Lucille A. Carver Biomedical Research Building (CBRB).

At its June 2004 meeting, the Board adopted a resolution authorizing the Executive Director to take all action needed to effect the issuance of the bonds.

The bonds would be sold to provide the additional funds needed for construction of the CBRB, which will house research functions of the Roy J. and Lucille A. Carver College of Medicine.

- The bond issue would be the third series of Facilities Corporation Revenue Bonds sold to finance construction of the project; the first two series of bonds totaling \$25,000,000 were issued in September 2002.

The calendar year 2004 bond issuance schedule, approved by the Board in November 2003, included a sale by the University of Iowa Facilities Corporation in August 2004 to provide additional funding for the facility.

The University of Iowa Facilities Corporation was incorporated in 1967 as a not-for-profit supporting organization of the University of Iowa Foundation to assist in maintaining, developing, increasing, and extending the facilities and services of the University.

Although the bonds are being issued by the Corporation, they are deemed by Internal Revenue Service rulings to be issued “on behalf” of the Board of Regents and the State of Iowa. The Board of Regents must, therefore, approve the sale and terms of the bonds.

The bond structure for the University of Iowa Facilities Corporation bond issue differs from the structure used for Board of Regents bonds.

- The Corporation will issue the debt and lease the facility to the Board for use by the University during the term of the bonds.
- Upon retirement of the bonds, the facility will be conveyed to the University.

The last maturity of the bonds to be issued would be June 1, 2030. Annual debt service for the bonds of approximately \$1.98 million would be paid from lease rentals, which will be paid by the University to the Facilities Corporation under the terms of the lease.

Background:

History

In November 1999, the Board granted the University permission to proceed with planning for the Extension of the Medical Education and Biomedical Research Facility (MEBRF – B).

In March 2001, the Board approved the schematic design for the project that would construct a 131,500 gross square foot facility to house research facilities and administrative functions of the College of Medicine (renamed the Roy J. and Lucille A. Carver College of Medicine by Board action in March 2002).

In November 2001, the Board approved the naming of the College of Medicine Proposed Building B as the Roy J. and Lucille A. Carver Biomedical Research Building (CBRB).

- The building was named for the Carvers in recognition of a \$10,000,000 gift from the Roy J. Carver Charitable Trust to support capital development of the College of Medicine.

In March 2002, the Board approved a project description and budget in the amount of \$40,731,000 for the CBRB with funding from revenue bonds and Carver College of Medicine gifts and earnings.

Two series of bonds to finance a portion of the cost of the project were sold in September 2002; the \$25,000,000 in total bonds included \$17,000,000 of single tax-exempt bonds (exempt from federal, but not state taxes) and \$8,000,000 of taxable bonds consistent with the allocation of building space between educational use and sponsored research activities.

In February 2004, the Board approved a revised project budget in the amount of \$42,790,000.

- The revised budget provided for the conversion of space designed for the administrative offices of the Carver College of Medicine to research laboratories in response to the College's increasing need for research space.
- Since the use of portions of the CBRB were changed from educational to sponsored research activities, it was necessary to comply with the Internal Revenue Code's "Change of Use Rules." In April 2004, the sum of \$1,870,000 of the 2002 tax-exempt bond issue was reissued to maintain its tax exempt status.

Project Schedule The project is currently under construction with an anticipated completion date of March 2006.

Analysis:

Lease Obligation The Corporation will issue the bonds and lease the facility to the Board for use by the University.

The lease obligation with the Corporation will be an absolute and unconditional obligation of the University of Iowa. Lease payments are to be sufficient to pay the interest and principal on the bonds; supplemental rents are equal to administrative and trustee expenses.

Taxable Bonds The 2004 bonds will be the third series of bonds issued for the CBRB. In 2002, \$17,000,000 in tax-exempt bonds and \$8,000,000 in taxable bonds were issued.

When the 2002 bonds were sold, the Board was advised that an additional bond issue would be needed to complete the financing for the project.

Based upon the allocation of sponsored research activities (i.e., "private use") and educational activities (i.e., "governmental use"), for the facility, the 2004 series of bonds will be taxable.

Bond Insurance The four series of bonds (1998, 2000, 2000A, and 2002) issued by the University of Iowa Facilities Corporation for MEBRF-A and the two series of bonds issued to date for the CBRB, were insured by a municipal bond insurance policy issued by Ambac Assurance Corporation; the policy insures the payment of principal and interest to the bondholders.

The bonds had the highest rating from the credit rating agencies, Moody's Investors Service and Standard and Poor's; this rating produced an interest rate reduction sufficient to offset the policy premium.

Springsted, Inc., the Board's financial advisor, has determined that insurance for the 2004 series would likely be a "breakeven option" (i.e., the interest rate reduction would only just offset the policy premium). Therefore, Springsted, Inc. is recommending that the bond issue have "purchaser's option" insurance. The issue would be prequalified for insurance and if it is cost effective, the insurance can be purchased.

Issue Size The issuance size of \$25,000,000 would include:

- Project costs (estimated at \$22,583,000);
- Debt service reserve (estimated at \$1,980,000)
- Issuance costs (estimated at \$87,000); and
- Bond discount (estimated at \$350,000).

Outstanding Bonds Principal outstanding, as of July 2, 2004, of SUI Facilities Corporation bonds for projects on the Health Sciences campus include:

John W. Eckstein Medical Research Building (1986 Bonds, interest rates fixed in 1999)	\$ 5,075,000
Medical Education and Biomedical Research Facility – A (MEBRF-A) (1998 Bonds)	19,250,000
MEBRF-A (2000 Bonds)	19,250,000
MEBRF-A (2000A Bonds)	5,350,000
MEBRF-A (2002 Bonds)	7,555,000
Carver Biomedical Research Building (CBRB) (2002A Bonds)	16,595,000
CBRB (2002B Bonds)	<u>7,840,000</u>
Total	\$80,915,000

The total annual debt service payment for the above bonds is approximately \$6.2 million.

Sale The bid opening will occur at 10:00 a.m. on Wednesday, August 4, 2004. The bond sale is scheduled for the same day.

The Executive Committee of the Board of Directors of the Facilities Corporation is expected to approve the sale and terms of the bonds based on the best bid at a meeting scheduled for that date.

APPENDIX A

The Bond Documents

This is the last of a series of bond issues for the completion of the Roy J. and Lucille A. Carver Biomedical Research Building (CBRB).

This Bond structure differs from the ordinary in several respects as is illustrated by a brief description of the principal documents to be approved by the Board of Directors of the University of Iowa Facilities Corporation and by the Board of Regents, State of Iowa at the time of the sale.

The documents are as follows:

1. **Ground Lease.** Under the Ground Lease executed on September 19, 2002, the Board has leased the ground underneath and pertaining to the Facility to the Corporation.
2. **The Lease.** Under the Lease executed on September 19, 2002, the Corporation leases the Facility back to the Board for use of the University during the term of the Bonds. Basic rents are equal to principal and interest payments on the Bonds (and are assigned to the Indenture Trustee to secure Bond payments). Supplemental rents are equal to administrative and Trustee expenses. As part of this issue, there will be a First Supplement to Indenture of Trust to permit the issuance of the Series 2004 Bonds, and an amendment to the Lease to ensure that the rental payments equal the principal and interest payments due under the Series 2004 Bonds.

The Lease, as amended, is a capitalized lease under which the proceeds of the Series 2004 Bonds are made available to the Board to construct and acquire the Facility on behalf of the Corporation.

The obligation to pay rent likewise begins when the bond proceeds are turned over. Risks of delay or problems in completing the Facility rest with the University and the Board. A Summary of the Lease has been prepared for inclusion in the Official Statement.

3. **Indenture.** The Basic Rents are assigned by the Corporation to Wells Fargo Bank, National Association, as Trustee to pay the bondholders. The Indenture, as supplemented, embodies the terms of the Bonds and related covenants which are found in the Bond resolution in other financings.

The Indenture, as supplemented, is a complex document, made more so by the lease-based structure of this financing. A summary of the Indenture, as supplemented, has been prepared for inclusion in the Official Statement.

4. **Bond Purchase Agreement.** The Bond Purchase Agreement incorporates the terms of purchase by the successful bidders.
5. **Continuing Disclosure Certificate.** This is given to the purchaser at closing to enable the Bonds to be reoffered. It commits the Issuer and the University to report to certain public information agencies as to annual financial information or the occurrence of certain adverse events. The financial reports covered are those of the University, since the financing is based upon its obligation to pay rents, and the Facilities Corporation.

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