

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Preliminary Resolution for the Sale of up to \$25,000,000 Academic Building Revenue Bonds, Series S.U.I. 2004
Date: July 21, 2004

Recommended Action:

Subject to approval of the bond issuance schedule for the remainder of calendar year 2004, Adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$25,000,000 Academic Building Revenue Bonds, Series S.U.I. 2004.

Executive Summary:

Subject to approval of the bond issuance schedule for the remainder of calendar year 2004 (see Agenda Item 21), the Board is asked to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$25,000,000 Academic Building Revenue Bonds, Series S.U.I. 2004.

These bonds would be the first issuance of a series of Academic Building Revenue Bonds authorized by 2004 legislation.

Proceeds from the sale of the bonds would be used to partially fund the Chemistry Building Renovation project (schematic design and project description and total budget of \$35.2 million previously approved by the Board) and Phase II of the Art Building project, and to correct fire and environmental safety deficiencies at the University of Iowa.

In June 2004, the Board adopted a reimbursement resolution declaring its intent under Treasury regulations to issue debt to reimburse the University of Iowa for expenditures paid in connection with the Chemistry Building Renovation project.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue.

With the exception of Academic Building Revenue Bonds sold to replace project notes issued when Rebuild Iowa Infrastructure Funds were transferred to the General Fund by the 2002 General Assembly, this sale will be the first series of new Academic Building Revenue Bonds issued since 1995.

The principal payments and associated interest payments on these bonds and other bonds authorized by the 2004 legislation will be structured so that the tuition replacement appropriation needed in any fiscal year does not exceed \$24.3 million which was the FY 2004 appropriation prior to the 2.5% across-the-board appropriation reduction.

It is anticipated that annual debt service payments on the Series S.U.I. 2004 bonds will range from approximately \$500,000 in FY 2005 to \$2.2 million in FY 2025.

Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for Iowa residents who purchase the bonds.

Background:

Statutory Provisions Chapter 262A of Iowa Code permits the sale of Academic Building Revenue Bonds upon authorization of the General Assembly and approval by the Governor.

Board Action In December 2003, the Board endorsed a multi-year bonding proposal for academic buildings at the Regent universities.

2004 Legislation The 2004 General Assembly authorized and the Governor approved the sale of Academic Building Revenue Bonds for up to \$120 million in project costs for specific, high priority facility needs to support instruction and research at the Regent universities, including the Chemistry Building Renovation project, Art Building, Phase II project and fire safety improvements at the University of Iowa.

Chemistry Building Renovation A large portion of the Chemistry Building was constructed in the 1920s; much of the building, including the instructional laboratories, is functionally obsolete and the plumbing; electrical; and heating, ventilating and air conditioning systems are in need of replacement.

The Chemistry Building Renovation project, as approved by the Board in May 2004 (total project budget of \$35.2 million), would provide a modern, code-compliant instructional and research facility for the Department of Chemistry, and general university classroom space, through the demolition and renovation of existing space, construction of new space, and upgrade of building systems.

The construction contract for Phase 1a (relocation of Chemical Stores, demolition of the rooftop greenhouse, and construction of the electrical substation) was recently awarded. Phase 1b is anticipated to begin in the spring of 2005 and Phase 2 is projected to commence in the fall of 2006.

Art Building, Phase II The Art Building, Phase II project (estimated total project cost of \$11 million) includes approximately \$3 million for furnishings and site development for the new Art Facility, currently under construction and scheduled to be completed in July 2005. The remainder of the Phase II project includes the renovation of the existing Art Building.

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| Fire and Environmental Safety | As noted in its FY 2005 capital plan presented to the Board in June 2004, the University envisions undertaking \$1.5 million in individual fire and environmental safety projects in FY 2005 of which \$1 million would be financed by Academic Building Revenue Bond proceeds. |
| Tuition Replacement Appropriations | <p>Tuition replacement appropriations represent an ongoing commitment of the state to meet the debt service cost of Academic Building Revenue Bonds. Tuition and fee revenues are pledged for debt service payments for the bonds and the tuition replacement appropriation replaces that university revenue.</p> <p>Tuition replacement needs for each university are comprised of debt service payments (principal and interest), less the net interest earned on the construction, sinking and reserve funds.</p> |
| Electronic Bidding | The Board, at its November 2001 meeting, adopted a resolution approving electronic bidding procedures. |

Analysis:

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| Issue Size | <p>The size of the bond issue is estimated to total \$25,000,000 including:</p> <ul style="list-style-type: none"> • project costs (estimated at \$22,695,000); • debt service reserve (estimated at \$2,218,000); and • issuance costs (estimated at \$87,000). <p>This bond issue will finance portions of the costs of the Chemistry Building Renovation project; Art Building, Phase II project; and fire and environmental safety individual projects.</p> <p>An additional bond issue, tentatively scheduled for calendar year 2007, will finance additional costs of these projects.</p> |
| Tuition Replacement Requirements | <p>Debt service payments for this bond issue and other bond issues for the 2004 legislatively authorized projects will be structured so that the debt service payments will not exceed the FY 2004 initial tuition replacement appropriation (prior to 2.5% reduction) of \$24.3 million.</p> <p>It is estimated that annual debt service payments on the Series S.U.I. 2004 bonds will range from approximately \$500,000 in FY 2005 to \$2.2 million in FY 2025.</p> |
| Outstanding Bonds | The outstanding principal amount of University of Iowa Academic Building Revenue Bonds is \$53.8 million. |

Resolution

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 Law Firm 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.

Sale Date

The bond sale would be scheduled for the September 2004 Board meeting.


Joan Racki

Approved: 
Gregory S. Nichols

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