

Contact: Joan Racki

**SALE AND AWARD OF \$10,455,000 (ESTIMATED) UTILITY SYSTEM  
REVENUE REFUNDING BONDS, SERIES S.U.I. 2011**

**Action Requested:** Consider adopting the following resolution, subject to receipt of acceptable bids:

A Resolution providing for the sale and authorizing and providing for the issuance and securing the payment of \$10,455,000 (estimated) Utility System Revenue Refunding Bonds, Series S.U.I. 2011, for the purpose of advance refunding the Utility System Revenue Bonds, Series S.U.I. 2002, and paying costs of issuance, and authorizing and approving the execution and delivery of the Sixteenth Supplemental Indenture.

**(ROLL CALL VOTE)**

**Executive Summary:** The Board is asked to consider adoption of a resolution related to the sale, award, and issuance of Utility System Revenue Refunding Bonds for the University of Iowa. When the calendar year 2011 bond issuance schedule was approved by the Board in October 2010, it authorized such refunding bonds as the Executive Director determines advisable.

A review of possible refundings by Springsted, Inc., the Board's Financial Advisor, has determined that interest rate savings could occur by refunding the 2012 – 2022 maturities of the \$15,000,000 Utility System Revenue Bonds, Series S.U.I. 2002. These bonds were sold to finance, in part, utility system projects including improvements to steam and electrical distribution systems, chilled water systems, storm sewers and utilities relocation at the University. The University's utility system is a self-supporting operation.

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

The proposed refunding of the Utility System Revenue bonds would be an advance refunding as the refunding would occur prior to the initial call date of November 1, 2012. (Utility System Revenue Bonds have a principal maturity date of November 1<sup>st</sup>.) The proceeds from the sale of the refunding bonds, net of issuance expenses, would be invested in U.S. Treasury Obligations or other permitted investments to fund an escrow account which would be used to redeem the 2012 – 2022 maturities. (At closing, the University will deposit into the escrow account the November 1, 2011 principal and interest payments.) The refunding would not extend the maturity of the bonds beyond the last scheduled maturity of the 2002 Series bonds.

Interest rates on the refunding bonds are anticipated to be lower than the interest rates on the refunded bonds for the same years. (Rates on the 2002 Series bonds range from 4.15% in 2012 to 5.0% in 2022.) Springsted, Inc., the Board's financial advisor, has projected that the refunding would result in a present value savings of approximately \$725,000. Annual cash flow savings are estimated at approximately \$85,000.

The refunding issuance amount is estimated at \$10,455,000. This amount will be adjusted up or down, depending upon the bid received, but will not exceed \$11,000,000. This flexibility will provide sufficient funds to fund the escrow account and to pay the costs of issuance, which are estimated at \$80,000.

**Additional Information:** 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 further authorized to borrow money to finance the construction or improvements and to refund such indebtedness.

The sources of repayment for the borrowed funds are the income and revenues to be derived from the operation of the facility and any fees or charges implemented by the Board to students for whom the facilities are made available.

As a credit enhancement, the bond covenants for the existing bonds include a provision for the Board to charge a Utility Student Fee to remedy any deficiencies in the net income of the enterprise. Since the refunding bonds are being issued on parity with the existing bonds, the provision for a "backup student fee" would also apply to the new bonds.

Since Utility System bonds were first issued in 1985, there has not been a need to charge the student fee. There is no indication that the fee would need to be charged to support the debt service on the refunding bonds to be issued.

The receipt and opening of bids is scheduled for 10:00 a.m. on August 4, 2011, 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.

The official statement for the bond sale may be found on the website of Springsted, Inc., the Board's Financial Advisor, at <http://www.springsted.com/>.

A copy of the resolution, which was prepared by Ahlers & Cooney, P.C. and reviewed by Springsted, Inc. is available from the Board Office.

Specifics of the bonds are:

- Average Maturity: 6.5 Years
- Bonds Dated: August 1, 2011
- Interest Due: May 1, 2012 and each November 1 and May 1 to maturity
- Interest Exemption: Exempt from federal and state taxes for individual purchasers who are residents of Iowa
- Principal Due: November 1, 2012 – 2022
- Optional Call: Bonds maturing on or after November 1, 2020 are callable commencing November 1, 2019 and any date thereafter at par
- Denomination: \$5,000 and integral multiples thereof