

Contact: Brad Berg

ESTABLISHMENT OF IOWA STATE UNIVERSITY FACILITIES CORPORATION

Action Requested: Consider recommending to the Board authorization for Iowa State University, in cooperation with the ISU Foundation, to establish the ISU Facilities Corporation to provide for the issuance of certain indebtedness on behalf of the Board of Regents, State of Iowa for the benefit of Iowa State University.

Executive Summary: To facilitate the development of capital projects, specifically the Biosciences Facilities at Iowa State University partially funded by the General Assembly over the next three years, the University requests authorization to establish an ISU Facilities Corporation. The following provides a summary of the rationale for the creation of the new non-profit corporation to provide for the issuance of indebtedness on behalf of the Board of Regents for the benefit of Iowa State University. The ISU Facilities Corporation would issue debt on behalf of the Board (and for the benefit of the University) to facilitate the development of specific capital projects as authorized by the Board of Regents.

There are occasions when the Board determines that the construction or establishment of a certain facility is necessary. A financing issued by the ISU Facilities Corporation may be used to help the University acquire, construct and finance certain facilities when cash funds are not available, recommended, or practical, and a "self-liquidating, revenue producing" enterprise is not feasible.

The structure for an ISU Facilities Corporation bond issue would differ from that of Board of Regents' bonds. Although any bonds would be issued by the ISU Facilities Corporation, they would be deemed by IRS rulings to be issued "on behalf" of the Board and the State of Iowa, meeting the requirements for tax-exemption of interest for federal (but not state) income tax purposes. The Board must approve the sale and terms of the bonds and any lease arrangements to satisfy existing regulations. The ISU Facilities Corporation would issue the debt and then lease the financed facility to the Board for use by the University during the term of the bonds. The debt is serviced exclusively from the lease payments and the facility would transfer to the University upon retirement of the bonds. The use of a facilities corporation would permit the Board (on behalf of ISU) to acquire needed facilities.

The University of Iowa currently has an established affiliate known as the "University of Iowa Facilities Corporation" (UIFC), which is administered by the University of Iowa Foundation. UIFC supports the University of Iowa by issuing debt to finance specific facilities that cannot be financed through other mechanisms. It is proposed that the Iowa State Foundation assist in the establishment of a similar organization on behalf of the Board and for the benefit of Iowa State University and be known as the "ISU Facilities Corporation".

The ISU Foundation Board at a meeting on June 13, 2015, approved proceeding with the creation of the ISU Facilities Corporation. The University is working closely with the Regents' Bond Counsel and Municipal Advisor, the ISU Foundation Counsel, and the Board Office. Subject to Board approval to proceed, it is anticipated it will take approximately nine months to obtain the necessary IRS approvals for the establishment of the 501(c)(3) corporation.

The University anticipates in approximately one year it will request Board of Regents approval for the ISU Facilities Corporation to issue approximately \$20 million in debt (to be repaid with University resources) to finance a portion of the Advanced Teaching and Research Building (ATRB). The ATRB is part of the \$80 million Biosciences Facilities project that was approved by the Board in June 2015. The Legislature has provided \$50 million in state funds over the next three years for the two components of the Biosciences Facilities project. There also may be other projects that could be proposed in the future to be funded by the Facilities Corporation. Any projects involving this type of financing will require specific Board approval.