

Contact: Brad Berg

**RESOLUTION FOR THE SALE AND AWARD OF \$23,410,000 (ESTIMATED)
UTILITY SYSTEM REVENUE AND REFUNDING BONDS, SERIES I.S.U. 2016**

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 \$23,410,000 (estimated) Utility System Revenue and Refunding Bonds, Series I.S.U. 2016, for the purpose of equipping and improving, certain facilities and improvements to the Utility System of Iowa State University, currently refunding the \$7,475,000 Utility System Revenue Bonds, Series I.S.U. 2006, funding the Debt Service Reserve Fund, and paying costs of issuance.

(ROLL CALL VOTE)

Executive Summary: The Board is asked to consider adoption of a resolution providing for the sale, award and issuance of Utility System Revenue and Refunding Bonds for Iowa State University.

Proceeds from the sale of the bonds would be used to partially fund the Utilities – Increase Chilled Water Capacity project (\$22M project budget approved by the Board at its September 2016 meeting) and for the current refunding of the series 2006 Utility System Revenue Bonds. The project includes installation of two chillers, one cooling tower, chilled water mains, an underground electrical feeder and auxiliary chilled water equipment. The University's utility system is a self-supporting operation.

When the calendar year 2016 bond issuance schedule was approved by the Board in October 2015, it authorized such refunding bonds as the Executive Director determines advisable. A review of possible refundings by Springsted, Inc., the Board's municipal advisor, has determined that interest rate savings could occur by refunding the 2017 – 2026 maturities of the \$7,475,000 Utility System Revenue Bonds, Series I.S.U. 2006. The 2006 bonds were issued to fund the Utilities – College of Veterinary Medicine Chilled Water Plant project. The refunding of the Series 2006 Bonds would be a current refunding as the refunding would occur less than 90 days prior to the anticipated call date of November 1, 2016.

Principal on the bonds would be repaid over a period of 20 years, with debt service of approximately \$1.77 million annually through 2026 and then \$1.3 million thereafter to be paid from utility system charges and the proceeds of any utility system student fees which the Board may establish in the future. Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for Iowa residents who purchase the bonds.

Interest rates on the 2016 bonds are anticipated to be lower than the interest rates on the refunded bonds for the same years. (Rates on the 2006 Series bonds range from 4.0% in 2017 to 4.375% in 2026.) Springsted, Inc. has projected that refunding these bonds would result in a present value savings of approximately \$500,000. Annual cash flow savings are estimated at approximately \$82,000.

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 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.

The new bonds would be issued on a parity with the outstanding bonds, with the source of repayment continuing to be utility system charges. 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 new bonds are being issued on a 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 bonds to be issued since it is anticipated that utility system charges should be more than sufficient to meet the financial requirements of the utility enterprise.

The receipt and opening of bids is scheduled for 10:00 a.m. on Thursday, October 20, 2016, and the award is scheduled for later that day.

The official statement for the bond sale may be found on the website of Springsted, Inc., the Board’s Municipal 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 as follows:

- Average Maturity: 10.5 Years
- Bonds Dated: November 1, 2016
- Interest Due: November 1, 2017 and each May 1 and November 1 to maturity
- Interest Exemption: Exempt from federal and state taxes for individual purchasers who are residents of Iowa
- Principal Due: November 1, 2017 – 2036
- Optional Call: Bonds maturing on or after November 1, 2027 are callable commencing November 1, 2026 and any date thereafter at par
- Denomination: \$5,000 and integral multiples thereof