The State Board of Regents met electronically on Tuesday, August 30, 1988. The following were in attendance:

<u>Members of the State Board of Regents</u>
Mr. Pomerantz, President
Mr. Duchen
Mr. Fitzgibbon
Mr. Greig (excused)
Dr. Harris
Mr. Tyler
Miss VanEkeren
Mr. VanGilst
Mrs. Williams

<u>Office of the State Board of Regents</u>
Mr. Richey
Director Eisenhauer
Associate Director Jenkins
Minutes Secretary Briggle

<u>State University of Iowa</u>
Vice President Phillips

<u>Iowa State University</u>
Vice President Madden

<u>University of Northern Iowa</u>
Ms. Miller

<u>Iowa School for the Deaf</u>
Mr. Balk

<u>Iowa Braille and Sight Saving School</u>
Mr. Hauser

GENERAL

The State Board of Regents held an electronic Board meeting on Tuesday, August 30, 1988, commencing at 8:45 a.m., in accordance with Section 21.8 of the Code of Iowa. The meeting was not held in person because it was not possible to have the Regents assemble in one location for this brief meeting. Each Regent in attendance was at a separate remote location. Public access was provided at the following locations:

Regents Board Office, 6th Floor, Lucas State Office Building, Des Moines
Old Public Library, Main Conference Room, University of Iowa, Iowa City
Room 125, Beardshear Hall, Iowa State University, Ames
Board Room, Gilchrist Hall, University of Northern Iowa, Cedar Falls
Administrative Offices, Iowa School for the Deaf, Council Bluffs
Administrative Office, Iowa Braille and Sight Saving School, Vinton

The following business pertaining to general or miscellaneous was transacted.

SELECTION OF A MANAGING UNDERWRITER FOR CAPITAL APPRECIATION BONDS. The Board Office recommended the Board approve the selection of Edward D. Jones & Co. as the Managing Underwriter, as recommended by the Banking Committee, for up to $10 million in Regent capital appreciation bonds.

At the July Board meeting a request for proposals (RFP) was approved and subsequently sent to fifteen prospective managing underwriters. Five firms submitted proposals and two of the five firms were eligible for the Iowa preference as provided by law. An evaluation team made up of the Board's financial advisor and bond counsel, university officials and Board Office staff evaluated the five proposals.

The evaluation team determined that three of the firms, including the two Iowa-domiciled firms, should be interviewed. The three firms were Edward D. Jones & Co., R.G. Dickinson/Norwest Investment Securities, and Allied Group/Securities Corp. of Iowa/Dain Bosworth/Piper, Jaffray & Hopwood. Regent Fitzgibbon was present at the interviews. The evaluation team took final action on August 23 to recommend Edward D. Jones & Co. as the managing underwriter. Though Edward D. Jones & Co. is not an Iowa-domiciled firm, it was the evaluation team's opinion that the firm's proposal was so far superior as to compel an override of the Iowa preference.

Reasons supporting the recommendation are as follows:

1. The Regents would save $476,636 in total interest dollar cost by selecting Edward D. Jones & Co. over the next lowest proposal.

Firm	T.I.C.%	Total Dollar Interest Cost	Underwriting Fee* (per $1,000)
Edward D. Jones	6.627%	$13,412,957	$ 8.00
Dickinson/Norwest	7.018%	13,889,593	19.80
Allied/SCI/Piper/Dain	7.282%	14,180,243	14.44
A.G. Edwards	7.348%	14,259,778	20.15
Nuveen	7.361%	14,282,986	26.84

*Dollar amount of underwriting fee is included in Total Interest Cost.

2. The retail office network of over 60 Iowa offices and the marketing plan presented by Edward D. Jones & Co. are ambitious, creative and most accommodating in terms of a broad-based selling group. They suggest use of these bonds as one element of an integrated college savings plan.

3. Edward D. Jones & Co. offered a 100 percent up front commitment to underwrite the bond issue at the indexed rates. R.G. Dickinson/Norwest also offered the 100 percent guarantee.

4. Individuals from Edward D. Jones & Co. have been extremely confident in the demand for the bonds and extremely enthusiastic about the success of the program. They are also willing to involve a broad group of firms in the selling group if selected as manager.

Edward D. Jones & Co. has indicated that whether the bonds are callable or non-callable would not affect their proposal. Determining whether the bonds are callable or non-callable would not materially affect the financial outcome of the proposals.

It was the opinion of the evaluation team that the selection of Edward D. Jones & Co. as managing underwriter for the Regent capital appreciation bonds will result in a successful sale that meets the financing needs of the university and the intent of the General Assembly. Members of the Banking Committee reviewed the issue and concurred with the recommendation of Edward D. Jones as the managing underwriter.

President Pomerantz recognized the Board's financial advisor Luther Anderson.

Mr. Anderson highlighted the key elements of the decision to select the Jones firm. He underscored the fact that it was a very thorough selection process. The savings in selecting the Jones firm was very substantial. The geographical spread and the number of offices the Jones firm has in the state of Iowa was also a deciding factor. Their system is designed to get the broad distribution intended by the legislation. The firm is committed to purchasing the bonds at the very aggressive interest rates they proposed.

They are optimistic and enthusiastic about college savings bonds. They have dealt with similar bonds in Illinois, North Dakota and Missouri.

President Pomerantz asked for clarification of the commitment on the underwriting.

Mr. Anderson responded that the underwriting does not take place until the time of sale. The firm has made a strong viable commitment, regardless of how the bonds are selling, at the interest rate it proposed.

Regent VanGilst noted that one of the bidders wasn't confident in the ability to sell Regent bonds.

Mr. Anderson said the point that bidder was making was that the Board of Regents has issued many bonds in the last 2-3 years and that it was becoming difficult to find purchasers in the state of Iowa because of the volume of outstanding bonds. They felt that the Board should think about trying to appeal to a broader market. Mr. Anderson said the Jones firm has a different opinion. They believe there is much demand for these bonds in the state of Iowa.

Mr. Haynie of the Ahlers firm stated that the Board is required by statute to give preference to an Iowa firm. They defined that "preference" meant that if there were proposals ranked within 5 basis points of interest of each other the Iowa preference would be the tie breaker. In this case the Jones proposal is significantly better than the two in-state proposals and represented a difference of 40 basis points of interest. He said it would be very difficult to justify almost $500,000 cost differential from the second low bidder, R. G. Dickinson/Norwest, on the basis of Iowa preference. The Board is in a very comfortable position as far as the statute is concerned. Mr. Haynie said he thought that the suggestion that it may be necessary to go out of state to find bond purchasers is a rationalization to coming in with such a high interest rate. He said the double taxation makes these bonds highly marketable.

Regent VanGilst asked if the 6.627 percent interest rate is what the state is paying. Mr. Haynie responded that that was the August 9 interest date. The Request for Proposals required that proposers set interest rates as of August 9 adjusted by an index. The 6.62 percent will vary up or down with each one point of rise or fall of the bond buyer index which will permit the Board to select a selling date in October and still use the competitive rates in the proposal.

Regent VanGilst asked for the maturity date of these bonds. Mr. Anderson said they anticipated it to be in the range of 5-20 years.

Mr. Haynie said the basic maturities are set. Since these are zero coupon bonds some rounding is done in setting the beginning and final maturities. Some very minor adjustments will have to be made.

Regent VanGilst noted that anyone can buy these bonds. He said it would be an excellent retirement investment. There are no restrictions on what the money is used for.

Mr. Anderson said the interest rates depend on what happens with the bond buyer index between now and the time of sale. He said he would be surprised if by October the interest rates were higher than 7-1/2 percent.

Regent Harris asked if the bonds would be a good investment for a Keogh plan.

Mr. Haynie said it would not. The Keogh is tax exempt in itself. The interest accumulates and then the tax takes place at the retirement. The benefit for a Keogh plan would be to buy the highest yielding quality bonds whereas these are already discounted because they are tax exempt and already have a lower interest rate.

President Pomerantz asked if there would be a conflict of interest if Regents were to purchase these bonds individually. Mr. Haynie said he did not think so.

Mr. Anderson stated that one-half of the bonds must be sold in the original purchase amount of $1,000.

Regent Harris asked if the money used to purchase the bonds is taxable. Mr. Haynie responded that the only thing exempt from taxes is the compounding of interest within the bond during the life of the bond and upon maturity.

President Pomerantz called upon Regent Fitzgibbon, chair of the Banking Committee, to report on the views of the members of the Banking Committee.

Regent Fitzgibbon stated that members of the Banking Committee reviewed the issue and concurred with the recommendation of Edward D. Jones as the managing underwriter. He said they have a commitment from Edward D. Jones and Co. that the rates stay the same whether these bonds are going to be callable or non-callable. He noted there is sometimes a difference of 15-20 points between callable and non-callable bonds.

Mr. Anderson said the proposal asked bidders to assume that there would be a call at ten years, and to make their proposals on that basis. A number of the firms indicated it would be a better investment if the bonds are non callable. When they specifically asked the Jones firm, their opinion was yes, they probably would be a little more saleable if they are non-callable.

However, they said they anticipated there was going to be much demand for them with or without the call.

President Pomerantz said that from the state's point of view a call feature would be desireable.

Mr. Anderson said that in the one case the Board has the option of making the bonds more desireable for the investor versus keeping options open for the Board itself.

Regent Duchen said that if the market can handle the bonds he felt the state is not out of line to put some callable statement in the bonds.

Regent Fitzgibbon stated the Board members would have an opportunity to have input on that. He said that whether they are callable or non-callable is to be decided by the Board.

Mr. Anderson said that the September Board meeting would be another opportunity to discuss that.

Regent Fitzgibbon said he would present that again to Banking Committee and then to the Board.

President Pomerantz cautioned that the Regents be aware of the political impact of selecting an out-of-state firm.

MOTION: Regent Duchen moved to approve the selection of Edward D. Jones & Co. as the Managing Underwriter, as recommended by the Banking Committee, for up to $10 million in Regent capital appreciation bonds. Regent Tyler seconded the motion, and upon the roll being called, the following voted:
AYE: Duchen, Fitzgibbon, Harris, Pomerantz, Tyler, VanEkeren, VanGilst, Williams.
NAY: None.
ABSENT: Greig.

President Pomerantz requested the attorneys provide a written opinion of whether there would be a conflict for Regents to purchase these bonds.

Mr. Haynie said he would be glad to provide that. He said he would also talk with Edward D. Jones & Co. about avoiding special treatment toward Regent purchasers.

President Pomerantz said he was also concerned about a perception of conflict of interest

Mr. Haynie said that if any members of the Board subscribed they could expect to be treated like everyone else.

ADJOURNMENT. The electronic meeting of the State Board of Regents adjourned at 9:15 a.m. on Tuesday, August 30, 1988.

R. Wayne Richey
Executive Secretary