

The State Board of Regents met electronically on Monday, December 12, 1988.  
The following were in attendance:

Members of the State Board of Regents

Mr. Pomerantz, President  
Mr. Duchon  
Mr. Fitzgibbon  
Mr. Greig (excused)  
Dr. Harris  
Mr. Tyler  
Miss VanEkeren  
Mr. VanGilst  
Mrs. Williams

Office of the State Board of Regents

Executive Secretary Richey  
Director Eisenhauer  
Associate Director Jensen  
Minutes Secretary Briggie

State University of Iowa

Vice President Phillips  
Treasurer True  
Mr. Ross Hagen

Iowa State University

Ms. Judy Hankins

University of Northern Iowa

Ms. Doris Miller

Iowa School for the Deaf

Superintendent Johnson

Iowa Braille and Sight Saving School

Superintendent Thurman

Springsted, Inc.

Ms. Corky Weeks

Ahlers Law Firm

Mr. Tom Stanberry

## STATE UNIVERSITY OF IOWA

The State Board of Regents held an electronic Board meeting on Monday, December 12, 1988, commencing at 11:30 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, Sixth 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 Offices, Iowa Braille and Sight Saving School, Vinton

The following business pertaining to the State University of Iowa was transacted.

**CONVERSION OF \$20.6 MILLION UNIVERSITY OF IOWA UTILITY SYSTEM REVENUE BONDS, SERIES S.U.I. 1985.** The Board Office recommended the Board (1) receive a report on bids received for \$20.7 million in variable rate Utility System Revenue Bonds, Series S.U.I. 1985, to be converted to a fixed rate on January 3, 1989, and (2) subject to a satisfactory bid being received, adopt "A resolution authorizing proceeding with the conversion of the interest rate on \$20.7 million of the State Board of Regents \$35.7 million Utility System Revenue Bonds (State University of Iowa) Series S.U.I. 1985 from a variable interest rate to a fixed interest rate with the remarketing of \$20.7 million of said Bonds."

In December 1985 the Board issued \$32.5 million in variable rate revenue bonds on behalf of Iowa State University and \$35.7 million in variable rate revenue bonds on behalf of the University of Iowa. These bonds were to finance major power plant replacement activities at the two universities. At the time the bonds were issued as variable rate, it was anticipated that the bonds would be converted to a fixed rate and sold within the "Iowa Market" after the projects were completed. The projects at both universities are now in the process of being completed and are expected to be operational by the end of the year.

The Board approved the first conversion of \$15 million in University of Iowa Utility System Revenue Bonds at an electronic meeting held on May 11, 1988. Those bonds were converted from the variable to a fixed rate on June 1, 1988. The University of Iowa has an additional \$20.7 million in variable rate Utility System Revenue Bonds which are subject to conversion.

The conversion must occur on an interest payment date. The process is now underway to convert the University of Iowa bonds on January 3, 1989. For the Board to convert the bonds on January 3 requires action establishing the fixed interest rates not later than 20 days prior to the date of conversion. Therefore, the Board was asked to conduct this electronic meeting for the purposes of approving the conversion and the rate of interest on the bonds.

According to the Board's financial advisor the Board has saved approximately \$5,692,000 by issuing the bonds as variable rate rather than fixed rate bonds in 1985. Savings through December 1, 1988, on Series S.U.I. 1985 have been approximately \$2,977,000 and on Series I.S.U. 1985 have been approximately \$2,715,000.

The following previously-established bond issuance schedule is anticipated:

<u>Sale Date</u>	<u>Academic Building Revenue Bonds</u>		<u>Utility Revenue Bond Conversions</u>	
	<u>SUI</u>	<u>ISU</u>	<u>SUI</u>	<u>ISU</u>
December 1988			\$20,700,000	
February 1989	\$ 9,000,000			
May 1989		\$10,000,000		
July 1989				\$16,500,000
October 1989	\$11,100,000			
January 1990		\$12,500,000		
TOTALS	\$20,100,000	\$22,500,000	\$20,700,000	\$16,500,000

Proceeding with the potential sale of capital appreciation bonds in February or March will be discussed by the Board in December.

President Pomerantz stated that a representative of Springsted, Inc. would present information relating to the bond conversion, describe the bids received and make a recommendation on those bids. He recognized Corky Weeks, Springsted, Inc.

Ms. Weeks presented the two bids received, as follows:

Merrill Lynch/Dain Bosworth/Edward D. Jones bid an interest cost of \$25,345,694.08 and a net effective rate of 7.15750 percent.

John Nuveen bid an interest cost of \$25,074,671.53 and a net effective rate of 7.08104 percent.

Ms. Weeks stated that the best bid was that of John Nuveen. She compared the bid to the bids received on two other conversion issues this year. The first was for the S.U.I. series in May. Dain Bosworth bid a net interest cost equal to 6.97 percent. In July the Board sold \$16 million in series I.S.U. bonds. Dain Bosworth bid a net interest cost of 7.33 percent. Springsted, Inc. was predicting somewhere around 7.20 to 7.25 percent for this conversion;

therefore, she said the John Nuveen bid of 7.08104 percent looked very good. Ms. Weeks recommended the Board accept the bid of John Nuveen.

Regent Duchen asked how much money the university was saving by moving from a variable to a fixed interest rate. Ms. Weeks responded that through December 1988 Springsted, Inc., calculated that the average savings was \$2.9 million on the S.U.I. bonds. She said that the reason the university and the Board would be wise to convert now that the facility is completed is that it reduces reserve requirements and budgets do not have to consider the ups and downs.

President Pomerantz asked for the variable rate as of January 1, 1989. Ms. Weeks responded that it would be somewhere around 6 percent. Mr. True noted that the variable rate was 6.85 percent last week.

President Pomerantz said the fundamental reason for establishing a fixed rate for the bonds is because the average rate would be lower over the life of the bonds.

Regent Fitzgibbon asked Ms. Weeks where she thought rates were going in the next 6 to 12 months. Ms. Weeks responded that it is difficult to know. She said that right now short-term rates are going up considerably. Long-term rates have not been nearly as volatile.

President Pomerantz said that what we have now is an inverse curve. Historically, that has precluded long-term rates going down.

Regent VanGilst asked if the John Nuveen firm bid one rate for the whole term? Ms. Weeks responded that 7.08 percent is the average percentage. From 1990 to 1998 the rate is 7.70 percent. In 1999 the rate is 6.50 and from there on goes to 6.60, 6.70, 6.80 and 7.10 percent.

Regent Fitzgibbon asked what Springsted officials think about rates. Ms. Weeks said she did not think they would do better in the long term if they rejected these bids and came back in another 6 months and did another bid letting. She said that in her opinion they would do about the same or maybe a little worse. She did not think long-term rates would be going down.

President Pomerantz asked how many variable rate bonds are still out. Ms. Weeks said that half of the Iowa State University variable rate bonds still need to be converted amounting to \$16.5 million.

President Pomerantz recommended they follow Springsted's advice and convert to fixed rates. He felt it was more secure to have fixed rates over the long term.

**MOTION:**

Regent Harris moved to adopt "A resolution authorizing proceeding with the conversion of the interest rate on \$20.7 million of the State Board of Regents \$35.7 million Utility System Revenue Bonds (State University of Iowa) Series S.U.I. 1985 from a variable interest rate to a fixed interest rate with

the remarketing of \$20.7 million of said Bonds." Regent Williams seconded the motion.

Regent Duchen said he felt more comfortable having a fixed rate. He hoped that in the future they would give more serious thought to these variable rates so they know the total costs.

Regent Fitzgibbon expressed concern about dealing with such a large sum of money over the telephone.

VOTE ON THE MOTION:

Upon the roll being called, the following voted:

AYE: Duchen, Fitzgibbon, Harris, Pomerantz, Tyler, VanEkeren, VanGilst, Williams.

NAY: None.

ABSENT: Greig.

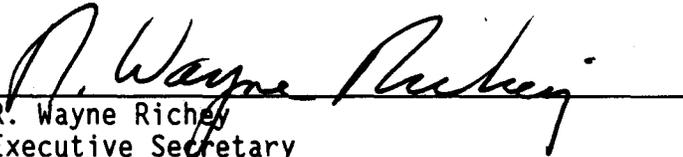
President Pomerantz stated that the Regents only had two options for dealing with bond conversions. They could do it over the telephone or with everyone present at a meeting. He suggested they dovetail the bond conversions with the Board's regular meetings.

Mr. Richey said he thought that the question of whether conversions were a good business practice had already been considered by the Banking Committee.

President Pomerantz said bond sale and conversion schedules might be a good agenda item for the Banking Committee.

Regent Fitzgibbon said the Banking Committee would take up that question at its December meeting.

**ADJOURNMENT.** The electronic meeting of the State Board of Regents adjourned at 11:50 a.m. on Monday, December 12, 1988.

  
R. Wayne Richey  
Executive Secretary