The State Board of Regents met in electronic session on Thursday, September 5, 1985. Those present were:

Members of the State Board of Regents:
Mr. McDonald, President
Mr. Duchen
Mr. Greig
Dr. Harris
Mrs. Murphy
Mr. Tyler
Ms. Van Ekeren
Mr. Van Gilst

Office of the State Board of Regents:
Executive Secretary Richey
Director True
Associate Director Runner
Ms. Sands, Administrative Assistant

State University of Iowa:
President Freedman
Vice President Ellis
Director Jensen

Iowa State University:
Vice President Moore

University of Northern Iowa:
Director Kelly

Speer Financial, Inc.;
Elwood Barce
Derek Engelen

John Nuveen & Co. Incorporated:
John Peterson

Securities Corporation of Iowa:
Jack Evans
GENERAL

ELECTRONIC MEETING

The State Board of Regents convened in an electronic board meeting on Thursday, September 5, 1985. The meeting was open to the public at the Board of Regents Office and at each of the three universities. Announcements of the meeting were issued on August 30, 1985.

President McDonald called the meeting to order at 9:30 a.m., daylight savings time. The roll being called, there were present John C. McDonald, president, in the chair, and the following named board members: Duchen, Greig, Harris, Murphy, Tyler, Van Ekeren, and Van Gilst. Regent Anderson was excused.

President McDonald stated that this meeting was for the sole purpose of considering financing proposals for the University of Iowa Human Biology Research Facility. The following business was transacted.

HUMAN BIOLOGY RESEARCH FACILITY FINANCING. It was recommended that the board:

1. Receive an oral report by the university reviewing the progress that has been made on financing arrangements for this project since the July board meeting.

2. Receive a report by the university on the terms of the indenture of trust, the letter of credit, and the remarketing agreement, all to be entered into by the University of Iowa Facilities Corporation as a part of this financing proposal.

3. Approve the lease of the proposed Human Biology Research Facility between the University of Iowa Facilities Corporation, as lessor, and the State Board of Regents, as lessee.

4. Adopt a resolution authorizing the issuance and sale of not more than $17,000,000 Variable Rate Demand Revenue Bonds (Human Biology Research Facility Project) Series 1985A and $8,000,000 Fixed Rate Bonds (Human Biology Research Facility Project) Series 1985B of the University of Iowa Facilities Corporation to provide funds to pay costs of constructing and equipping a Human Biology Research Facility.

5. Approve the bond purchase agreement among John Nuveen & Co. Incorporated and Securities Corporation of Iowa, as remarketing agents and underwriters; the University of Iowa Facilities Corporation as issuer; and the State Board of Regents as lessee.

6. Require the university to provide to the Board Office a quarterly summary of all actions taken by the lessee representative during the prior three months, with respect to this financing.
The Board Office report noted that at the July meeting, the board heard a presentation by the university and the underwriting team selected by the University of Iowa Facilities Corporation for this project. Following that presentation and board discussion of the issue, the board authorized a telephonic meeting to be arranged prior to the next regularly scheduled board meeting for the purposes of taking action on the Human Biology Research Facility financing.

The Board Office report indicated that what differentiates this project from others the board has undertaken in the past is that the bond issuer will be the University of Iowa Facilities Corporation and not the board and that a portion of the bonds will be variable rate demand bonds. The board is being asked to approve the issuance of $8 million in long-term fixed rate bonds, and no more than $17 million in variable rate demand bonds.

The proposed lease agreement provides critical controls to the board during the duration of this financing, particularly the variable rate portion of the financing. As examples, Sections 8.3 and 8.8 of the lease provide that the University of Iowa Facilities Corporation shall consult with the lessee (Board of Regents) and comply with any directions or instructions from the lessee regarding the lessor's exercise of any of the options with respect to Series A bonds variable rate bonds. Additionally, Section 8.8 provides that the lessor shall consult with the lessee and comply with any directions or instructions from the lessee with respect to the removal and selection of any successor trustee, remarketing agent, or letter of credit bank or in the event that the cost of completion of construction of the facility exceeds the budget approved by the board. Board approval of any budget changes will be required and, should any of the equipment budget be required for completion of construction, such a decision would come before the board for action.

In July, the university proposed a total issuance size of $22.6 million; however, the issue at the time of the September 5 meeting is $25 million. The $2.4 million difference is proposed to be used in part to increase debt service reserves by approximately $500,000. This was done to increase the security for bond holders and eventually will be utilized to reduce the debt principal or contribute toward annual debt service payments. The balance of the increased issuance size is to compensate for a drop in estimated interest earnings and to accommodate an increase in the bond discount and bond issue expenses.

President McDonald recognized President Freedman to begin discussion of the proposed financing.

President Freedman commented that the facility is essential to maintaining the quality of the College of Medicine. He noted that the university is losing faculty not only because of salaries but also because faculty are unable to do their work in the laboratory space. He said the facility will be used to further understanding of the human body and disease and, specifically, will emphasize treatment of heart disease and cancer, and health problems found in Iowa. He said construction will begin immediately, with completion by Spring 1988.
President McDonald then recognized Vice President Ellis, who commented that the Iowa Facilities Corporation had considered the financing proposals and had unanimously approved them. He then listed the parties to the agreements:

The Board of Regents and the University of Iowa and the University of Iowa Facilities Corporation, a non-profit corporation organized under Iowa law;

The board will lease land to the Facilities Corporation and, in turn, the Facilities Corporation will finance and construct the facility. The lease would be between the Board of Regents on behalf of the university, as lessee of the building, and the Facilities Corporation as lessor.

On completion of construction of the facility, the university will pay the Facilities Corporation rent adequate to pay principal, interest, and related issuance expenses. Possession of the building will be given to the University when the building is certified complete by the architects. The lease is expected to extend until June 2005, or until the debt has been paid. At that time, the Facilities Corporation will convey unencumbered fee title of the building to the Board of Regents.

Jonn Nuveen & Co. Incorporated and Securities Corporation of Iowa, underwriting team for both the variable and fixed rate issues;

American National Bank and Trust Company of Chicago, trustee for bondholders and the transaction;

Bank of Tokyo, Ltd., the letter of credit bank.

Vice President Ellis explained that payments by the university to the Iowa Facilities Corporation will be made directly to the trustee, who will then pay interest and principal due to bondholders periodically depending on the redemption dates of bonds outstanding. He said that the lease obligates the Facilities Corporation to consult with the board on any significant modifications of the agreement and before making any material changes in the plans and specifications.

Indenture of Trust. Vice President Ellis noted that the indenture of trust defines in detail the obligations of the Facilities Corporation to repay debt owing to both the variable rate bondholders and the fixed rate bond holders. Pursuant to the provisions of the indenture and the remarketing agreement, Nuveen is required to purchase bonds offered by owners for redemption and remarket them and is also obligated to hold the bonds for seven days without charging interest to the Facilities Corporation. Ellis emphasized that the Board of Regents has the authority to direct the investment of the funds.

Letter of Credit. Vice President Ellis indicated that the letter of credit agreement between the Bank of Tokyo and the Facilities Corporation provides additional security to holders of variable rate bonds. The agreement, issued for a five-year period ending September 1990, will provide liquidity and credit enhancement and ensures that funds will be available and principal and interest will be paid.
Remarketing Agreement. Vice President Ellis said that the agreement between the Facilities Corporation, Nuveen, and American National Bank embodies the undertaking by Nuveen to remarket variable bonds when "put" by owners. The agreement is terminable by either party at any time on 60 days notice.

Bond Purchase Agreement. Vice President Ellis indicated that this agreement provides that Nuveen and Securities Corporation of Iowa will purchase both variable and fixed rate bonds from the Facilities Corporation and market the bonds for public sale. Nuveen is obligated to make full payment for the purchase, as well as accrued interest, from the date of sale.

Vice President Ellis commented that the increase in the size of the issue since July was caused not only by a drop in interest rates and the addition of fees but by the determination that the university needs capitalized interest for 12 months beyond construction. He noted that rental costs start on completion of the building; if the construction schedule is extended, the university will need to pay interest during that period. He said they looked at a 33-month construction schedule preliminarily but after consultation with the architect, they have decided that a 24-month schedule and 12 months of cushion (contingency) would be best.

He also noted that interest earnings estimates are down and, further, that costs given in July did not include letter of credit and remarketing fees.

He said that the fixed rate debt has been rated as AA by Standard and Poors. He indicated that the market for fixed rate bonds was tested and found to be weak and, therefore, they could not be sold at a net interest cost of 8.4 percent. The weakness in the bond market is partially because a substantial amount of municipal debt is expected between now and the end of the year. He pointed out that a fixed rate issue with a coupon rate of 8.349 percent and a net interest cost of 8.56 percent was what the market would support.

Mr. Ellis directed the board's attention to exhibits which detailed sources and uses of funds. He noted the contrast between these bonds and the latest SUI telecommunications issue with coupon bonds selling for 7.14 percent. He said there are two reasons for the contrast--The Board of Regents benefits from being exempt from state of Iowa tax and the fact that interest rates have risen significantly since the telecommunications issue.

He noted that the actual interest rate for the $17 million in variable rate debt, if issued today, would be 5.8 percent (interest plus remarketing plus letter of credit fees). By definition, the interest on variable rate bonds will fluctuate. At the time of the July board meeting, the rate was 5.5 percent; today it is 5.8 percent.

Ellis said the university had projected the cost in debt service in three scenarios in its exhibits. The three cases illustrate debt service requirements with variable interest rates averaging 6 percent, 8 percent, and at historical rates over the life of the issue. Average debt service rental payments would be within the original project estimate. He added that research generally facilitates indirect cost recovery and becomes self-supporting.

Mr. Ellis asked that the board approve the proposed financing.
President McDonald asked if the university had plans to solicit earnestly additional gifts and how they would be used to redeem the bonds. Vice President Ellis said the university doesn't have a campaign to get gifts—their campaign is directed toward raising funds to support graduate assistants and endowed faculty positions at the SUU campus. He added, however, that he understands that there are donors who are interested in making considerable gifts toward this facility.

Mr. Duchen asked who would control what the university receives in gifts for the facility. Will it be used to pay off variable rate bonds? He noted the "significant risks" to the borrower of variable rate debt. Vice President Ellis assured the board that as each private gift is received for this building, the board would be consulted as to when and how the gifts should be used. It is the board's responsibility how the university will apply the gift to the debt.

Mr. Duchen questioned if there are circumstances where the variable rate bonds cannot be redeemed and Vice President Ellis said the bonds could be redeemed from a draw on the letter of credit if gift funds are available for redeeming bonds. Mr. Richey commented that this is a function of the letter of credit agreement.

Regent Greig asked if the Bank of Tokyo is governed by U.S. restrictions. Vice President Ellis said that Federal Reserve restrictions apply to American banks who issue letters of credit. The Tokyo Bank is not subject to those controls. Mr. Greig said that such a safety factor was not present—only the bank's reputation was a factor. Vice President Ellis pointed out that only one American bank has the AAA rating of the Tokyo Bank. Mr. Richey added that the choice of the bank should be the concern of the bondholders.

**MOTION:**

Dr. Harris moved that the board receive an oral report by the university reviewing the progress that has been made on financing arrangements for this project since the July board meeting and that it receive a report by the university on the terms of the indenture of trust, the letter of credit agreement, and the remarketing agreement, all to be entered into by the University of Iowa Facilities Corporation as a part of this financing proposal. Mrs. Murphy seconded the motion and it passed unanimously.

**MOTION:**

Mr. Van Gilst moved the board approve the lease of the proposed Human Biology Research Facility between the University of Iowa Facilities Corporation, as lessor, and the State Board of Regents, as lessee. Mrs. Murphy seconded the motion and after due consideration by the board the president put the motion and upon the roll being called the following voted:
MOTION:

Mr. Duchen moved the board approve a resolution entitled "Resolution authorizing the sale of up to $17,000,000 Variable Rate Demand Revenue Bonds (Human Biology Research Facility Project) Series 1985A and $8,000,000 Fixed Rate Revenue Bonds (Human Biology Research Facility Project) Series 1985B of the University of Iowa Facilities Corporation; authorizing the execution and delivery of a Lease between the State of Iowa, acting by and through the Iowa State Board of Regents, and said Corporation, and related matters." Mr. Greig seconded the motion and after due consideration by the board the president put the motion and upon the roll being called the following voted:

AYE: Duchen, Greig, Harris, McDonald, Murphy, Tyler, Van Ekeren, Van Gilst
NAY: None
ABSENT: Anderson

Whereupon the president declared the motion duly carried and said resolution adopted.

Mrs. Murphy moved the board approve the bond purchase agreement among John Nuveen & Company, Inc., and Securities Corporation of Iowa, as remarketing agents and underwriters; the University of Iowa Facilities Corporation as issuer; and the State Board of Regents as lessee. Ms. Van Ekeren seconded the motion and after due consideration by the board the president put the motion and upon the roll being called the following voted:

AYE: Duchen, Greig, Harris, McDonald, Murphy, Tyler, Van Ekeren, Van Gilst
NAY: None
ABSENT: Anderson

Whereupon the president declared the motion duly carried and said bond purchase agreement approved.
MOTION: Mr. Tyler moved the board approve the recommendation that the university provide to the Board Office a quarterly summary of all actions taken by the lessee representative with respect to this financing during the prior three months. Ms. Van Ekeren seconded the motion and it passed unanimously.

ADJOURNMENT. The electronic meeting of the State Board of Regents adjourned at 10:20 a.m. on Thursday, September 5, 1985.

[Signature]
R. Wayne Richey, Executive Secretary