

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: April 9, 2001

Recommended Actions:

1. Adopt the following:

A Resolution providing for the sale and award of \$9,805,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001A and \$13,350,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001B, and approving and authorizing the agreement of such sale and award.

A Resolution authorizing and providing for the issuance and securing the payment of \$9,805,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001A and \$13,350,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001B for the purpose of refunding (i) the 2002 through 2013 maturities of the \$12,500,000 Academic Building Revenue Bonds, Series I.S.U. 1990; and (ii) the 2002 through 2015 maturities of the \$17,240,000 Academic Building Revenue Bonds, Series I.S.U. 1991, presently outstanding and heretofore issued by the Board to defray costs of buildings and facilities on the campus of Iowa State University of Science and Technology.

(ROLL CALL VOTE)

2. Adopt the following:

A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$16,000,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2001.

(ROLL CALL VOTE)

3. Accept the Report of the Banking Committee.

Executive Summary:

The Banking Committee materials, which include a memorandum covering each item in detail, have been furnished to all Board members. During its meeting on April 18, 2001, the Banking Committee is scheduled to consider the approval of the minutes from the March 2001 Banking Committee; the Sale and Award of \$23,155,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001A and 2001B and a Preliminary Resolution for the Sale of up to \$16,000,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 1992.

The Banking Committee is also scheduled to receive the Semi-Annual Master Lease Report, a report on bond issuance costs, audit reports on Revenue Bond Funds, and internal audit reports.

Background:

Approve Minutes of the March 2001, Banking Committee Meeting

The minutes of the March meeting are included with the Banking Committee materials.

Sale and Award of \$23,155,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2001A and 2001B

At its March 2001 meeting, the Board approved the refunding of Iowa State University Academic Building Revenue Bonds, Series 1990 and 1991 and adopted a preliminary resolution for the sale of the refunding bonds.

The 1990 and 1991 Iowa State University bond issues were identified as having the largest possible savings from a refunding during a recent review by the Board Office; Springsted, Inc., the Board's financial advisor; and Ahlers Law Firm, the Board's bond counsel.

The refunding of these bonds would be a current refunding, as the call date for the outstanding bonds is July 1, 2001. All outstanding bonds of the 1990 and 1991 series would be called and principal payments made on July 1, 2001.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue. The net and present value savings from the refundings in future tuition replacement appropriations between 2002 and 2015 are estimated at \$2.8 million and \$2.5 million, respectively.

Springsted, Inc., the Board's financial advisor and Ahlers Law Firm, the Board's bond counsel, will report to the Board on the bids received, subject to receipt of acceptable bids.

Preliminary Resolution for the Sale of up to \$16,000,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 1992

As noted at last month's Banking Committee meeting, the Board Office; Springsted, Inc., the Board's financial advisor; and Ahlers Law Firm, the Board's bond counsel; have been reviewing, as interest rates have fallen, the feasibility and cost effectiveness of refunding any of the outstanding Academic Building Revenue Bond issues. The sale of two refunding bond issues for Iowa State University has been scheduled for the April Board meeting.

The two Iowa State University bond issues, which will be refunded, were identified as having the largest possible savings from a refunding. Another cost effective refunding would be the University of Iowa Academic Building Revenue Bonds, Series 1992.

The refunding of the 1992 series bonds would be a full net advance refunding as the call date for the outstanding bonds is July 1, 2002. The proceeds of the net advance refunding bonds would be placed in an interest bearing escrow account invested in U.S. Treasury Obligations, and used to pay the principal on the callable bonds on their call date and the debt service on the refunded bonds prior to the call date.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue. The net and present value savings from the refundings in future tuition replacement appropriations between 2002 and 2015 are estimated at \$1.5 million and \$1.2 million, respectively.

It is recommended that the Board adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$16,000,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2001. The sale would be scheduled for the May 2001 Board meeting.

Semi-Annual Master Lease Report

The Board has established a master lease agreement to provide short-term financing (3 to 10 years) for real and personal property. The Regent Procedural Guide §7.32 requires that a semi-annual report on outstanding activity under the master lease agreement be submitted to the Banking Committee.

The aggregate amount for all leased real and personal property financed under the current (1996 effective date) master lease agreement through Wells Fargo Brokerage Services LLC (previously known as Norwest Investment Services) is limited to \$15 million, but the Board (lessee) may modify this amount. The Board approves each financing utilizing the master lease agreement and Wells Fargo must agree to lease the property.

Leases issued under the current master lease agreement total \$12.4 million as of March 31, 2001, leaving \$2.6 million of the \$15 million available for use. The institutions did not enter into any master lease agreements during the last six-month period.

The University of Iowa has indicated the possibility of using master lease financing within the next six months to acquire equipment for College of Medicine facilities at a total cost of \$4 million to \$5 million. Since borrowing of this amount would exceed the \$2.6 million available, Ahlers Law Firm has advised the Board Office that there should be a written, one page agreement between the parties (Wells Fargo and the Board) with a new aggregate, not-to-exceed amount at the time of the College of Medicine financing.

The Board's current agreement with Wells Fargo Brokerage Services LLC terminates on December 1, 2001. A Request for Proposals for a new agreement will be issued later this year.

Bond Issuance Costs

The Banking Committee previously requested reports identifying the costs associated with each bond issuance. In February 2001, the Banking Committee was presented with a report on the costs of issuance of all bonds sold in calendar years 1999 and 2000.

This month's report includes the bond issuance costs for the Iowa State University Dormitory Revenue Bonds sold in January 2001. This bond issue is financing the construction of Union Drive – Suite Building 1, for which a construction contract was recently awarded.

Estimated and actual issuance costs for the bond sales were:

	<u>Estimated Costs</u>	<u>Actual Costs</u>	<u>Actual Costs as % of Bond Issue \$</u>
ISU Dormitory Revenue Bonds	\$84,000	\$84,637.76	.39%

Revenue Bond Fund Audit Reports

Bond covenants require independent audits for each fiscal year that bonds are outstanding. Presented this month are two revenue bond audits for the University of Iowa (including UIHC) and three audits for the University of Northern Iowa (which were deferred from the March meeting).

Independent audits were conducted on one revenue bond fund at the University of Iowa and three revenue bond funds at the University of Northern Iowa for the fiscal year ended June 30, 2000, as required by the bond covenants. An independent audit was also conducted on one revenue bond fund for University of Iowa Hospitals and Clinics for the fiscal years ended June 30, 2000, and June 30, 1999.

The audit reports indicated that the financial statements of each of the revenue bond funds were presented fairly in all material respects. No significant audit adjustments or disagreements were reported.

Internal Audit Reports

Completed institutional internal audit reports are presented to the Banking Committee as required by Board policy. The Board Office monitors the progress of the institutions' follow-up on these reports. When corrective action has been satisfactorily completed, the audits are closed.

This month's report includes internal audits from the University of Northern Iowa (including those deferred from the March meeting) and the University of Iowa.

The status report reflects the most current status of the follow-up audits, which is now sorted by university. The University of Iowa internal auditors closed three original and two follow-up audits for University Operations and six audits for Hospital Operations. Internal auditors at the University of Northern Iowa closed one original and one follow-up audit.

The Status of Internal Audit Follow-Up table identifies 24 internal audit reports that have previously been presented to the Banking Committee, of which 15 still require follow-up.


Pamela M. Elliott

Approved: 
Frank J. Stork