

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: December 4, 2000

Recommended Actions:

1. Authorize Requests for Proposals for the Board's Financial Advisor, Bond Counsel, and Arbitrage Rebate Calculation Services.
2. Approve the extension of the investment advisor contract for six months through December 31, 2001, at half of the current contract annual fee of \$75,000 and authorize the Executive Director to enter into the contract extension.
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 December 13, 2000, the Banking Committee is scheduled to consider the approval of the minutes from the November 2000 Banking Committee; the authorization of the Requests for Proposals for the Board's Financial Advisor, Bond Counsel, and Arbitrage Rebate Calculation Services; and the extension of the Investment Advisor Contract. The Banking Committee is also scheduled to receive a report on bond issuance costs, the quarterly investment and cash management reports, a state audit report of the selected departments at Iowa State University of Iowa, and internal audit status report.

The recommended action for the Board to approve the Preliminary Resolution for Sale of \$21.9 Million Dormitory Revenue Bonds meeting ISU Series 2000A is included in docket item ISU B-7.

Background:

Approve Minutes of the November 15, 2000, Banking Committee Meeting

The minutes of the November meeting will be sent under separate cover.

Preliminary Resolution for Sale of \$21.9 Million Dormitory Revenue Bonds, ISU Series 2000A

Last month, the Banking Committee and Board approved a bond issuance schedule for calendar year 2001, which included the sale of Dormitory Revenue Bonds in January 2001 for a portion of the cost of Phase 1 of the Union Drive Neighborhood at Iowa State University. It was noted at that time that approval of the schedule did not indicate that the Board would approve the projects and the bond sale amounts.

Board action on a number of items related to Phase 1 of the Union Drive Neighborhood was deferred from the November meeting until the December meeting. Issues for Board consideration related to the project are detailed in docket memorandum ISU B-7. Banking Committee recommendations are subject to Board action. If the Banking Committee recommends adoption, the Board will not be asked to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$21,900,000 Dormitory Revenue Bonds, Series I.S.U. 2001A until it has acted on the University's requests regarding the Union Drive Neighborhood.

The bonds would be sold to construct and equip a residence hall (Suite Building 1) and related facilities (including infrastructure) and make other necessary improvements to the residence system. The bonds would be issued for a period of 28 years, with debt service of approximately \$1,636,000 annually to be paid from net rents, profits and income from the operation of the residence system. An additional bond issue scheduled for May 2001 would be needed to finance construction of the Community Center.

Bond Issuance Costs

The Banking Committee has requested reports identifying the costs associated with each bond issuance. The last report provided to the Banking Committee in September 2000 included issuance costs for the SUI Dormitory Revenue Bonds sold in April 2000 and the UNI Dormitory Revenue Bonds sold in May 2000. This month's report includes the issuance costs for the SUI Athletic Facilities Revenue Bonds and the two series of University of Iowa Facilities Corporation Revenue Bonds. These bonds were sold in September 2000. Estimated and actual issuance costs for the bond sales were:

<u>Bond Issue</u>	<u>Estimated Costs</u>	<u>Actual Costs</u>	<u>Actual Costs as % of Bond Issue \$</u>
SUI Athletic Bonds	\$50,000	\$53,515.08	.54%
SUI Facilities Corporation Bonds	79,200	93,375.89	.33%

Authorize Requests for Proposals for the Board's Financial Advisor, Bond Counsel, and Arbitrage Rebate Calculation Services

Statutory provisions require the solicitation of bids for services related to issuance of bonds every five years. The current contract with the Board's bond counsel, Ahlers Law Firm, and the current contract with Springsted, Inc., the Board's financial advisor, both expire on August 31, 2001. A separate Request for Proposal (RFP) has been established for Arbitrage Rebate Calculation Services since not all bond counsel or financial advisor firms provide this service.

University representatives and Board Office staff have reviewed the proposed RFP's included in Attachments A, B, and C of the Banking Committee docket memorandum (B.C. 4). These RFP's will be sent to the list of candidate firms as shown and any other firms the Banking Committee wishes to consider.

Representatives of the Board Office and universities will review the submissions received in response to each of the RFP's, and recommend three or four finalist firms to be interviewed by a selection committee comprised of representatives of the Banking Committee, the Board Office, and the universities.

The selection committee will present its recommendation for the Board's Financial Advisor, Bond Counsel, and Arbitrage Rebate Calculation Services at a future Banking Committee meeting.

Extension of Investment Advisor Contract

The Board of Regents employs an investment advisor and money managers to guide its policy of active investment management. Wilshire Associates has been the investment advisor to the Board and Regent institutions since May 1996, with Michael Palmer being the principal consultant. With the resignation of Michael Palmer from Wilshire Associates in October, Wilshire named Mark Brubaker as the principal representative to interact with the Board and its institutions.

Mr. Brubaker has been with Wilshire Associates since 1997. He earned a B.A. in Economics from Yale University and a M.S. in Industrial Administration with a concentration in finance from Carnegie Mellon University. He works out of Wilshire Associates' Pittsburgh office.

After discussions with university officials, the universities and staff request an opportunity to work with Mr. Brubaker for more than a few months. The Board Office requests the Banking Committee to recommend that the Board extend the investment advisor contract for six months at half of the current contract annual fee, which is \$75,000.

Wilshire Associates has agreed to this six-month extension. The Board Office will work with Wilshire Associates and the Attorney General's Office to accomplish this extension, once approved.

Investment and Cash Management Reports for the Quarter Ending September 30, 2000

The Regent institutions maintain two investment portfolios — operating and endowment/quasi-endowment. Both portfolios include restricted and unrestricted funds.

Institutional Investment Portfolios Market Value (Thousands of Dollars) As of September 30, 2000

	<u>Operating</u>	<u>Endowment/ Quasi-Endowment</u>
University of Iowa ¹	\$506,568	\$181,073 ²
Iowa State University	241,361	99,149 ³
University of Northern Iowa	66,040	-
Iowa School for the Deaf	2,356	-
Iowa Braille and Sight Saving School	<u>514</u>	<u>-</u>
Total	\$816,839	\$280,222

¹ Includes UIHC.

² Includes UNI.

³ Includes ISD and IBSSS.

As of September 30, 2000, total Regent combined operating and endowment portfolios exceeded \$1 billion for the third quarter in a row.

The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$816.8 million. The university operating investment portfolios performed in line with the comparable industry standards.

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment portfolio, which totals \$280.2 million. The combined investment manager returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios are 2.0% and 2.0%, respectively, for the quarter. The blended asset allocation benchmark posted returns of -0.3% for the quarter. Wilshire reported that all three endowment investment managers generally outperformed their respective benchmarks.

University internal auditors verified that investment purchases of the institutional portfolios, during the quarter ended September 30, 2000, and holdings were in compliance with respective Board and institutional investment policies.

State Audit Report - Selected Departments at Iowa State University

During FY 1995, the State Auditor's Office began reviewing transactions at Iowa State University to determine departmental compliance with certain established University guidelines. This is the sixth report issued by the State Auditor regarding departmental compliance at Iowa State University. It summarizes the procedures performed on transactions for the period July 1, 1998, through December 31, 1999.

The report is not intended to constitute an audit of the financial statements. Instead, the review is conducted to study and evaluate departmental controls and/or compliance with University guidelines. This report is performed in addition to the comprehensive annual audits conducted by the State Auditor.

This reports identifies a standard set of compliance areas reviewed by the auditors and details auditors' comments and recommendations for the specific departments. Follow-up is dependent on the State Auditor's Office.

The State Auditor's report noted nine areas of comment regarding compliance with the University Office Procedures Guide and seven areas of comment concerning internal control in its report for the period July 1, 1998 through December 31, 1999. The University concurred with all Auditor recommendations.

Internal Audit Reports

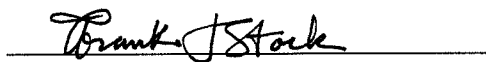
Completed institutional internal audit reports are presented to the Banking Committee as required by Board policy. The Board Office monitors the progress of the institutions' follow-up. When corrective action has been satisfactorily completed, the audits are closed.

Two follow-up reports are scheduled to be presented to the Banking Committee, one from Iowa State University and one from the University of Iowa. The reports indicate that corrective action to the recommendations made by the internal auditors is being taken or has already been completed in a satisfactory manner.

The *Status of Internal Audit Follow-Up* table identifies 30 internal audit reports that have previously been presented to the Banking Committee of which 28 still require follow-up. Internal auditors at the University of Iowa Hospitals and Clinics and Iowa State University each closed one audit.


Pamela M. Elliott

Approved:


Frank J. Stork