

**MEMORANDUM**

**To:** Board of Regents  
**From:** Board Office  
**Subject:** Sale and Award of \$6,080,000 Utility System Revenue Refunding Bonds, Series S.U.I. 2003  
**Date:** February 10, 2003

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**Recommended Action:**

Recommend that the Board adopt the following resolution, subject to receipt of acceptable bids:

A RESOLUTION providing for the sale, award, and issuance of \$6,080,000 Utility System Revenue Refunding Bonds (The State University of Iowa), Series S.U.I. 2003, approving and authorizing the agreement of such sale and award and authorizing and approving the execution and delivery of the Eighth Supplemental Indenture, Tax Exemption Certificate, Continuing Disclosure Certificate, Refunding Trust Agreement, and other documents. **(ROLL CALL VOTE)**

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**Executive Summary:**

The Board is requested to adopt a resolution related to the sale, award and issuance of \$6,080,000 Utility System Revenue Refunding Bonds, Series S.U.I. 2003.

At its January 2003 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to refund outstanding maturities of the 1993 University of Iowa Utility System Revenue Bonds.

Interest rates are historically low and the yield curve is very steep. This scenario is particularly advantageous for current refundings (occurring within 90 days of the call date) since no escrow needs to be established.

The 1993 Utility System Revenue Bonds, with an outstanding principal of \$6,355,000, became callable on November 1, 2002, and may be called on any date after that time.

- The sale amount of refunding bonds is less than the outstanding principal of the bonds to be refunded since a portion of the prior issue debt service reserve fund can be used as a source of funds for the refunding.

The anticipated present value savings from the refunding is approximately \$400,000 between now and the last maturity of the bonds (2009).

The outstanding maturities of the 1993 bonds would be called on April 15, 2003.

The maturity schedules for the bonds would not change with the refunding.

Interest on the refunding bonds would be exempt from federal and state taxes (double tax-exempt) for individuals who purchase the bonds. Interest on the bonds to be refunded has also been double tax-exempt.

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**Background:**

**Interest Rates** Bond coupon rates and the net interest rate for Regent bonds are very dependent upon market conditions at the time of issuance.

As interest rates decline, bonds can be refunded and annual and total debt service costs reduced.

**Definition of Refunding** A refunding is the issuance of bonds whose proceeds are used to pay principal, interest and/or call premium, if any, of an existing debt obligation; the old (refunded) debt is replaced with new (refunding) bonds.

**Statutory Provisions** Under the provisions of Iowa Code Chapter 262, the Board is authorized to construct, equip, maintain and operate self-liquidating and revenue producing facilities at the universities; the Board is also authorized to borrow money to construct or improve these facilities.

The University's Utility System is a self-supporting operation.

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**Analysis:**

**Bonds to be Refunded** The proceeds from the sale of the refunding bonds would be used to refund bond principal of the Board's Utility System Revenue Bonds, Series S.U.I. 1993.

The bonds were issued in the amount of \$11,360,000, with a net interest rate of 4.73%, to pay the costs of utility improvements, including chilled water improvements, electrical distribution, steam services and storm and sanitary collection.

- The bonds became callable on November 1, 2002, without payment of any call premium;
- The outstanding principal is \$6,355,000;
- The last maturity is November 1, 2009; and
- The coupon (interest) rates on the 2003 to 2009 maturities range from 4.5% to 4.9%.
  - Current interest rates for bonds maturing in the same years are significantly lower.

Debt service on Utility System Revenue bonds is paid from Utility System charges and the proceeds of any Utility System Student fees which the Board may establish in the future.

The possibility that student fees may be established in the future provides additional security for the bonds.

Refunding Bond Issue      The size of the refunding bond issue is \$6,080,000, including issuance costs estimated at \$43,000. Accrued interest to the date of the call on April 15, 2003, and the balance of the principal being refunded will be paid from funds on deposit in the debt service and reserve funds.

Internal Revenue Service Requirements      Under Internal Revenue Service regulations, a current refunding must occur no more than 90 days prior to the payment of the refunded bonds.

- The sale of the refunding bonds would close in mid March 2003 and the refunded bonds would be called on April 15, 2003, meeting the requirements of the 90-day time period and the call notice requirements.

Receipt of Bids      The receipt and opening of bids is scheduled for 10:30 a.m. and the award is scheduled for 12:00 p.m. on Wednesday, February 19, 2003.

A representative of Springsted, Inc., will report on the bids received and make a recommendation to the Board for award of the bonds.

Bond Specifics      Average Maturity:      3.85 Years  
Bonds Dated:      March 1, 2003  
Interest Due:      November 1, 2003, and May 1 and November 1 to maturity  
Interest Exemption:      Exempt from federal and state taxes for individual purchasers  
Principal Due:      November 1, 2003 – 2009  
Optional Call:      None  
Denomination:      \$5,000 and integral multiples thereof

Resolutions      Copies of the resolution and the Eighth Supplemental Indenture, which were prepared by Ahlers Law Firm and reviewed by Springsted, Inc., are available from the Board Office.

  
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Joan Racki

Approved:   
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Gregory S. Nichols