

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: February 12, 2001

Recommended Actions:

1. Approve the Proposed Financing Plan – Medical Education and Biomedical Research Facility – Building B (SUI).
2. Approve modification of institutional banking relationships.
3. Approve BlackRock to hold the SoCalEd bond.
4. 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 February 21, 2001, the Banking Committee is scheduled to consider the approval of the minutes from the December 2000 Banking Committee; the proposed financing plan of the Medical Education and Biomedical Research Facility – Building B at the University of Iowa; modification of institutional banking relationships; and approval for BlackRock to continue to hold the SoCalEd bond. The Banking Committee is also scheduled to receive a report on bond issuance costs, a state audit report of the system review of the payroll system at Iowa State University; internal audit reports from Iowa State University; and an internal audit status report.

Background:

Approve Minutes of the December 13, 2000, Banking Committee Meeting

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

Proposed Financing Plan – Medical Education and Biomedical Research Facility – Building B (SUI)

In November 1999, the Board granted the University permission to proceed with planning for the Extension of the Medical Education and Biomedical Research Facility (MEBRF - B). This month, as part of its capital register (SUI B-1), the University requests the Board to approve the program statement for the project, which provides a comprehensive assessment of the programmatic needs and space requirements of the units to be accommodated within the building. The University estimates MEBRF – B will cost \$40 million.

The University and the Board's bond counsel will discuss with the Banking Committee, at its February 2001 meeting, the proposed financing for the project, which is anticipated to be a combination of taxable and tax-exempt bonds to be issued by the University of Iowa Facilities Corporation. The bonds, which would have 25 principal payments, would be repaid through lease payments by the University to the Facilities Corporation. This methodology is similar to the repayment procedure being used for the Medical Education and Biomedical Research Facility (MEBRF), for which Facilities Corporation bonds were issued in 1998 and 2000. MEBRF is scheduled to be completed later this year.

Bond Issuance Costs (Calendar Year 1999 and 2000)

At its December 2000 meeting, the Banking Committee requested that it be provided with the costs of issuance of bonds sold in calendar year 1999 in addition to the costs of issuance for bonds sold in calendar year 2000, which had been provided at that meeting.

Issuance costs include the fees paid to the Board's bond counsel (Ahlers), Board's financial advisor (Springsted), rating agencies, accountants and trustees (if used), as well as reimbursable expenses, such as the printing of the offering statements.

There were nine bond sales totaling \$122.5 million in calendar year 1999 and six sales in calendar year 2000 totaling \$93.4 million. Issuance costs totaled \$425,409 in calendar year 1999 and \$368,888 in calendar year 2000.

Modification of Institutional Banking Relationships

Iowa Code §12C.2 requires the Board of Regents to approve financial institutions that serve as depositories. Regent Procedural Guide §7.34(H) states that proposed changes to banking relationships shall be reviewed by the Banking Committee and approved by the Board. The institutions are requesting Board approval of changes to the list of financial institutions.

As a result of acquisitions and mergers in the banking industry, the names of several banks have been officially changed. These name changes are reflected in the attached tables to B.C. 4.

In addition to names changes, the institutions request the following:

The University of Iowa closed two bank accounts and is requesting that the two banks be deleted from the approved list – Farmers and Merchants Savings Bank in Lone Tree and Firstar Trust Company in Milwaukee. These accounts were closed in March and July of 2000, respectively.

The University of Northern Iowa requests the addition of Union Planters Bank in Cedar Falls, Iowa, with a maximum deposit amount of \$20 million and Union Planters Bank in Goreville, Illinois, for controlled disbursements. The University issued a request for proposals for several banking services.

Iowa State University, the Iowa School for the Deaf, and the Iowa Braille and Sight Saving School request no additional changes.

BlackRock Investment Update

In November 2000, BlackRock purchased a bond issued by Southern California Edison (SoCalEd) in the operating account portfolios of the University of Iowa, Iowa State University, and the University of Northern Iowa. Currently, this security is trading at very distressed levels due to the rapidly rising cost of energy and the inability of utility companies in California to pass along the increases to customers. Standard & Poor's and Moody's have downgraded the bond to BBB- and Baa3, respectively, the lowest credit ratings in the investment grade category.

The SoCalEd bond matures on November 3, 2000, and represents less than 0.5% of the total Regent assets in each operating account. The Regent guidelines for the portfolio state that "securities must be rated investment grade or better by a nationally recognized credit rating agency at the time of purchase", but are silent as to the course of action should a security be downgraded after purchase. In the likely event that the SoCalEd bond is downgraded to below investment grade status, BlackRock recommends Board approval to continue to hold the bond because BlackRock considers it to be "money good", even under a bankruptcy scenario.

The Board's investment advisor, Wilshire and Associates, has reviewed BlackRock's recommendation and concurs with BlackRock. Wilshire and Associates will continue to monitor this situation.

Revenue Bond Fund Audit Reports (ISU)

The Office of Auditor of State conducted seven independent revenue bond fund audits at Iowa State University for the fiscal year ended June 30, 2000, as required by the bond covenants.

The audits were conducted in accordance with generally accepted auditing standards and Iowa Code Chapter 11 to obtain reasonable assurance that the financial statements were free of material misstatement.

For each of the University's revenue bond fund audits, the auditor's opinion concluded that the financial statements presented fairly, in all material respects, the financial position of the revenue bond funds at June 30, 2000, and that the revenues, expenditures, and changes in fund balances (deficit) were in conformity with generally accepted accounting principles.

State Audit – System Review of the Payroll System (ISU)

The State Auditor made a study and evaluation of general and application controls of Iowa State University's Administrative Data Processing Center (ADP) to determine whether controls were sufficient to provide reasonable assurances that control objectives were achieved. The auditor's opinion concluded that controls for the payroll system were sufficient, except for the identified findings. The University is taking corrective action.

The primary objectives of the review were to study the manual and automated controls within the existing ADP environment and systems and provide recommendations for enhancing the control environment. The review met the requirements for determining the validity and reliability of data from computer-based systems as outlined by federal policies and guidelines.

The auditor made recommendations for improving controls and establishing written policies and procedures and accepted University responses for corrective actions. Follow-up is dependent on the State Auditor's Office.

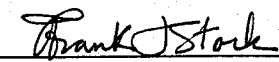
Internal Audit Reports

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.

Three completed internal audit reports conducted by Iowa State University auditors are to be presented to the Banking Committee for the first time.

The *Status of Internal Audit Follow-Up* table identifies 28 internal audit reports that have previously been presented to the Banking Committee of which 21 still require follow-up. Internal auditors at the University of Iowa have closed three audits for the University and four audits for the University Hospitals and Clinics.


Pamela M. Elliott

Approved: 
Frank J. Stork