

MEMORANDUM

**To:** Board of Regents  
**From:** Board Office  
**Subject:** Report of the Banking Committee  
**Date:** January 6, 2003

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**Recommended Actions:**

- ISU Bond Sale
1. Adopt the following resolutions subject to receipt of acceptable bids:
 

A Resolution providing for the sale and award of \$6,200,000 Indoor Multipurpose Use and Training Facility Revenue Bonds, Series I.S.U. 2003, and approving and authorizing the agreement of such sale and award.

A Resolution authorizing and providing for the issuance and securing the payment of \$6,200,000 Indoor Multipurpose Use and Training Facility Revenue Bonds, Series I.S.U. 2003, to pay the costs of constructing and equipping an indoor multipurpose use and training facility including funding a debt service reserve fund and paying the costs of issuance of the Bonds.

**(ROLL CALL VOTE)**
- UNI Bond Sale
2. A Resolution providing for the sale and award of \$9,210,000 Dormitory Revenue Bonds, Series U.N.I. 2003, and approving and authorizing the agreement of such sale and award.
 

A Resolution authorizing and providing for the issuance and securing the payment of \$9,210,000 Dormitory Revenue Bonds, Series U.N.I. 2003, for the purpose of paying the cost of remodeling, improving, constructing and equipping residence halls and related facilities, located on the campus of the University of Northern Iowa, including funding a debt service reserve fund and paying the costs of issuance of the Bonds.

**(ROLL CALL VOTE)**
- SUI Bond Resolution (February)
3. Adopt the following resolutions:
 

A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$6,200,000 Utility System Revenue Refunding Bonds (The State University of Iowa), Series S.U.I. 2003.

**(ROLL CALL VOTE)**
- ISU Bond Resolution (March)
4. A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$22,000,000 Dormitory Revenue Bonds, Series I.S.U. 2003.
 

**(ROLL CALL VOTE)**
  5. Accept the remainder of the report of the Banking Committee.
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**Executive Summary:**

- Approvals                    The Banking Committee materials, which include a memorandum covering each item in detail, have been furnished to all Board members. During its meeting on January 16, 2003, the Banking Committee is scheduled to consider approval of:
- The minutes from the November 2002 Banking Committee meeting
  - Sale and Award of \$6,200,000 Indoor Multipurpose Use and Training Facility Revenue Bonds, Series I.S.U. 2003
  - Sale and Award of \$9,210,000 Dormitory Revenue Bonds, Series U.N.I. 2003
  - Preliminary Resolution for the Sale of up to \$6,200,000 Utility System Revenue Refunding Bonds, Series SUI 2003 (February)
  - Preliminary Resolution for the Sale of up to \$22,000,000 Dormitory Revenue Bonds, Series ISU 2003 (March)
- Reports                        The Banking Committee is scheduled to receive reports on:
- Costs of Bond Issuance
  - Quarterly Investment and Cash Management Report
  - Revenue Bond and Note Fund Audits
  - Internal Audits

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**Background and Analysis:**

Minutes                        The minutes of the November 2002 Banking Committee meeting are included with the Banking Committee materials.

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ISU Indoor Multi-  
purpose Use and  
Training Facility  
Bond Sale

At its November 2002 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to construct an indoor multipurpose use, training and practice facility for use by varsity football and other field-sports programs.

The University reports that of the \$9,371,800 approved budget, gift funds totaling \$3,986,000 are currently available. The ISU Foundation and the Athletic Department have pledges and other revenues to pay for the construction of the facility. However, the pledges are to be paid over a period of years.

Discussions among the University, the ISU Foundation, the Board Office, and the Board's bond counsel and financial advisor have occurred over a number of months in late 2002 regarding financing for the portion of the project cost for which gift funds are not currently available.

Based upon these discussions, it has been determined that a Board of Regents bond issue backed by an agreement with the ISU Foundation for gift revenues would be the preferred financing structure.

Principal on the bonds would be repaid over a period of 17 years, with debt service of approximately \$530,000 annually.

Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for individuals who purchase the bonds.

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UNI Dormitory  
Revenue Bond Sale

At its November 2002 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to finance dining upgrades, including development of a "market place" food service area, and mechanical, restroom, and accessibility improvements for the Towers Center, which is a major dining facility used by students residing in Bender, Dancer, and Campbell Residence Halls at the University of Northern Iowa.

Principal on the bonds would be repaid over a period of 19 years, with debt service of approximately \$750,000 annually to be paid from the net rents, profits and income of the Residence System.

Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for individuals who purchase the bonds.

The University's Residence System is a self-supporting operation and receives no state appropriations.

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SUI Utility System  
Revenue Refunding  
Bond Resolution  
(February)

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 SUI 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.

To take advantage of the historically low rates and an anticipated present value savings of more than \$400,000 between now and the last maturity of the bonds (2009), it would be advantageous to refund these bonds as soon as possible.

The bond issuance schedule approved by the Board in November 2002 did not include any bond sales in February 2003 since this meeting would be a telephonic conference call, if needed.

The Board's financial advisor (Springsted), bond counsel (Ahlers Law Firm), the University of Iowa, and Board Office recommend proceeding with a refunding to occur at a February telephonic meeting.

It is anticipated that the outstanding maturities of the bonds would be called on April 1, 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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ISU Dormitory  
Revenue Bonds  
(March)

The calendar year 2003 bond issuance schedule, approved by the Board in November 2002, included a bond sale in March 2003 to finance construction of Union Drive, Suite Building 2.

The project, which will construct a second, four-story, suite-style residential facility, is the first component of the Residence System, Phase II Plan.

Principal on the bonds would be repaid over a period of 25 years, with debt service of approximately \$1,525,000 annually to be paid from the net rents, profits and income of the Residence System.

Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for individuals who purchase the bonds.

The University's Residence System is a self-supporting operation and receives no state appropriations.

Costs of Bond  
Issuance

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The Banking Committee has requested reports identifying the costs associated with each bond issuance. The report provided to the Banking Committee in November 2002 included issuance costs for the July 2002 sale of Iowa State University Academic Building Revenue Project Notes, Series I.S.U. 2002.

This month's report includes the issuance costs for the September 2002 sale of University of Iowa Facilities Corporation Bonds for the Roy J. and Lucille A. Carver Biomedical Research Building Project and the October 2002 sale of University of Northern Iowa Dormitory Revenue Refunding Bonds.

The costs of issuance for the bond issues are summarized below

<u>Bond Issue</u>	<u>Costs of Issuance</u>
\$25,000,000 - Univ. of Iowa Facilities Corporation, Series 2002A and Series 2002B (Carver Biomedical Research Building)	\$90,052.66
\$9,535,000 - Dormitory Revenue Refunding Bonds, Series U.N.I. 2002	50,502.85

At its January 2002 meeting, the Banking Committee requested that actual costs be detailed by fees paid to Springsted and Ahlers, and other expenses. The requested information for calendar years 1999 - 2001 and 2002, to date, is included in the Banking Committee memorandum.

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

Institutional Investment Portfolios  
Market Value (in thousands)  
As of September 30, 2002

	<u>Operating</u>	<u>Endowment/ Quasi-Endowment</u>
University of Iowa <sup>1</sup>	\$528,668	\$253,094 <sup>2</sup>
Iowa State University	290,915	96,836 <sup>3</sup>
University of Northern Iowa	73,921	-
Iowa School for the Deaf	2,572	-
Iowa Braille & Sight Saving School	<u>752</u>	<u>-</u>
Total	<u>\$896,828</u>	<u>\$349,930</u>

<sup>1</sup> Includes UIHC.  
<sup>2</sup> Includes UNI.  
<sup>3</sup> Includes ISD and IBSSS.

As of September 30, 2002, total Regent combined operating and endowment portfolios were over \$1.2 billion.

**Operating** The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$896.8 million. The university operating portfolios performed in line with industry standards while BlackRock outperformed the same standards.

**Endowment** Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment / quasi endowment portfolio, which totaled \$349.9 million.

The combined investment managers' returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios were -11.5% and -11.3%, respectively, for the quarter. The blended asset allocation benchmark posted returns of -10.6% for the quarter.

The quasi endowment totaled of \$94.4 million and returned 3.9% as of September 30, 2002. The returns underperformed the benchmark of 4.6% by 0.7%.

Wilshire reported that the five endowment investment managers were comparable to their respective benchmarks.

**Endowment Policy Implementation** In January 2002, the Board implemented a new endowment investment policy due to the significant demutualization proceeds. Because of the uncertainty of anticipated legislative actions, full implementation of the new Board policy was delayed at the direction of the Board Office. September 30, 2002, was the first quarter that the investment policy was implemented.

Investment Issues One corporate bond held by Reams Asset Management was downgraded below investment grade. Reams indicated that the downgrade is believed to be associated with a bank line renewal process and not a result of fundamental deterioration in the company's long-term credit profile. Wilshire recommended that the investment be retained for the near term.

Two items at Iowa State University fell outside of the asset allocation policy as set forth in the Board policy. The Board's investment policy requires that institutional officials rebalance the portfolios during the following quarter. The University plans to rebalance during the quarter ending December 31, 2002.

The internal auditors verified that remaining investment purchases and holdings during the year ended September 30, 2002, were in compliance with respective Board and institutional investment policies.

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Revenue Bond  
and Note Fund  
Audit Reports

Revenue Bond and Note Fund audit reports are presented to the Banking Committee as required by Board policy.

Nine revenue bond and note fund audit reports from Iowa State University for the year ended June 30, 2002 are presented this month. The audits indicate that the financial statements of each of the revenue bond and note funds were presented fairly in all material respects.

No findings were reported regarding financial or compliance issues.

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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.

Eight new University of Iowa audits and three follow-up reports from the University of Iowa are presented this month; all three follow-up reports are closed. The Status of Internal Audit identifies 11 internal audit reports, 8 of which require follow-up.

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Pamela M. Elliott Approved: Gregory S. Nichols  
Pamela M. Elliott Gregory S. Nichols