

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: July 7, 2000

Recommended Actions:

1. Adopt the following:

A Resolution authorizing the Executive Director to take any and all action deemed necessary to effect the issuance of not to exceed an aggregate principal amount of \$29,750,000 University of Iowa Facility Corporation Revenue Bonds (Medical Education and Biomedical Research Facility Project), \$22,250,000 Series 2000 and not to exceed \$7,500,000 Series 2000A.

(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 \$10,000,000 Athletics Facilities Revenue Bonds, Series S.U.I. 2000.

(ROLL CALL VOTE)

3. Adopt the following:

A Resolution authorizing the Iowa State Memorial Union to begin initial proceedings to issue its 2000 Promissory Note in the estimated principal amount of not to exceed \$5,750,000 for the purpose of fully refunding the outstanding principal amounts of the \$6,815,000 Promissory Note dated November 1, 1995, and funding a reserve fund and related matters.

(ROLL CALL VOTE)

4. Receive 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 July 19, 2000, the Banking Committee is scheduled to consider the approval of the minutes from the May 2000 Banking Committee meeting; a Resolution Authorizing the Executive Director to Effect the Issuance of up to \$22,250,000 Series 2000 and up to \$7,500,000 Series 2000A University of Iowa Facilities Corporation Revenue Bonds (Medical Education and Biomedical Research Facility); a Preliminary Resolution for the Sale of up to \$10,000,000 Athletic Facilities Revenue bonds, Series S.U.I. 2000; and a Resolution Authorizing the Iowa State Memorial Union to Initiate Proceedings to Issue its 2000 Promissory Note not to exceed \$5,750,000.

The Banking Committee is also scheduled to receive a report on Sanford C. Bernstein - Change in Ownership Interests; the FY 2001 Internal Audit Plans; two State of Iowa audit reports; state audit reports for the five Regent institutions and the Board Office; and internal audit reports for the University of Iowa, Iowa State University, the University of Northern Iowa, and Iowa School for the Deaf.

Background:

Approve Minutes of the June 14, 2000, Banking Committee Meeting

The minutes of the meeting will be included with the materials for the Banking Committee meeting.

Resolution Authorizing the Executive Director to Effect the Issuance of up to \$22,250,000 Series 2000 and up to \$7,500,000 Series 2000A University of Iowa Facilities Corporation Revenue Bonds (Medical Education and Biomedical Research Facility)

The Board is asked to adopt a resolution authorizing the Executive Director to take all action needed to effect the issuance of not more than \$29,750,000 University of Iowa Facility Corporation Revenue Bonds for the University of Iowa College of Medicine Medical Education and Biomedical Research Facility (MEBRF) project. The bonds were included in the Proposed Bond Issuance Schedule for Calendar Year 2000 presented to the Banking Committee in November 1999. The bonds would be sold to finance, in part, the project that is currently under construction on the Health Sciences Campus.

Although the bonds are being issued by the Corporation, they are deemed by Internal Revenue Service revenue rulings to be issued "on behalf" of the Board of Regents and the State of Iowa, meeting the requirements for tax-exemption of interest for federal (but not state) income tax purposes. The Board of Regents

must therefore approve the sale and terms of the bonds after the University of Iowa Facilities Corporation Board of Directors has approved the sale on terms of the best bid.

The last maturity of the bonds to be issued will be June 1, 2020. Debt service of approximately \$2.2 million annually will be paid from lease rentals, which will be paid by the Board to the Facilities Corporation under the terms of the lease.

Preliminary Resolution for the Sale of up to \$10,000,000 Athletic Facilities Revenue bonds, Series S.U.I. 2000

The Board is requested to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$10,000,000 Athletics Facilities Revenue Bonds, Series S.U.I. 2000. The bonds were included in the Proposed Bond Issuance Schedule for Calendar Year 2000 presented to the Banking Committee in November 1999. The bonds would be sold to finance a portion of the Hawkeye Athletic / Recreation Facilities Complex which consists, in part, of the Roy G. Karro Athletics Hall of Fame, soccer facilities, site work, and parking.

The bonds will be issued for a period of 21 years, with debt service of approximately \$830,000 annually to be paid from net rents, profits, and income from the operation of the facility and tuition designated as building fees for the project.

Resolution Authorizing the Iowa State Memorial Union to Initiate Proceedings to Issue its 2000 Promissory Note

The Iowa State Memorial Union is a separate, non-profit corporation established in 1922. Since the Memorial Union Corporation issues notes on behalf of the University, the Board of Regents, as the benefited public body, must approve the terms of the financing.

In 1995, the ground floor of the Union was remodeled to provide modern kitchen facilities and a food service court as well as student office space. At the time of the 1995 renovation, the Board authorized the Union to issue and sell on behalf of the State of Iowa its first Mortgage Notes to refund the outstanding principal of prior promissory notes and to pay for the renovation of the ground floor.

The financing provided for annual principal payments beginning December 1, 1996, with a balloon payment due December 1, 2000. This financing was selected since it was anticipated that additional renovations would be undertaken in 5 years and the refinancing of the outstanding debt would be combined with the financing of the additional renovations.

However, the additional renovations will not occur before the balloon payment. In addition, there have been discussions between the University administration and the Memorial Union Board of Directors regarding governance structures.

The outstanding principal on the 1995 note is \$5,521,032. The Union, with concurrence from the University, proposes to refinance this outstanding amount for an additional 5-year period under similar terms and conditions as the 1995 note. A new balloon payment would be due December 1, 2005.

If the Board approves the resolution as presented above, further action on the part of the Banking Committee and Board will be requested at the September 2000 meeting.

Sanford C. Bernstein - Change in Ownership Interests

Sanford C. Bernstein is the international fund manager responsible for approximately 4.8% of the Board's institutional endowment portfolios totaling more than \$11.9 million.

On June 21, 2000, Sanford C. Bernstein publicly announced a definitive agreement to combine with Alliance Capital Management.

Sanford C. Bernstein is a value-oriented institutional money manager known for its high quality investment research and is a leading factor among high-net-worth private clients. Alliance Capital Management is a growth-oriented portfolio manager and is a major factor in the retail mutual fund arena.

The assets under management for the combined firm will total \$475 billion with annual revenues of approximately \$3 billion, administered by nearly 4,000 people.

Wilshire Associates, the Board's investment advisor, is currently reviewing the ownership change and will provide an analysis of its potential impact to the Regent institutions to the Banking Committee at a later date.

FY 2001 Internal Audit Plans

Annually, the university internal auditors submit internal audit plans to the Banking Committee that review past accomplishments and identify the internal audit focus for the next fiscal year in accordance with Board policy. The three universities and the University of Iowa Hospitals and Clinics have internal auditors. The audit plans for the University of Iowa and Iowa State University include audit coverage of the university as well as the special school for which each is responsible.

All four internal audit staffs made progress towards completing the internal audit plans for FY 2000. All internal audit staffs currently have audits in progress from FY 2000.

During the presentation of the FY 2000 plans in July 1999, the Banking Committee requested that the University of Northern Iowa actively pursue formal completion of two internal audits from prior fiscal years (Price Laboratory School and Camp Adventure). The University of Northern Iowa released the Price Laboratory School audit on June 29, 2000, and anticipates the release of the Camp Adventure audit on July 31, 2000.

During the discussion of the October 1999 audit on the Small Business Development Center (SBDC) at the University of Northern Iowa, the Banking Committee requested an interim written follow-up report on it. The interim follow-up report is included in the Banking Committee memorandum, which indicates that SBDC is successfully implementing the audit recommendations. The University expects complete implementation and a final follow-up review in October of 2000.

State of Iowa Audit Repots

Two audit reports for the State of Iowa are released on an annual basis: the Comprehensive Annual Financial Report and the Single Audit Report. These reports contain information regarding the five Regent institutions and the Board Office as well as the rest of state government.

The Comprehensive Annual Financial Report (CAFR) for the State of Iowa presents the aggregated financial data for the state. In the FY 1999 report, the State Auditor noted that state appropriations from the Rebuild Iowa Infrastructure Fund were used for items inconsistent with the fund's legislatively established purpose.

The Single Audit Report for the State of Iowa, required by federal law, covers financial, compliance, and control aspects of federal programs administered by state agencies, institutions, and universities. The FY 1999 report contained findings, questioned costs, and comments for Iowa State University which were considered immaterial. The University is taking corrective action.

State Auditor Reports

As part of the annual audit process, the State Auditor provides written reports on certain aspects concerning the Regent institutions and Board Office for which the Auditor believes corrective action is necessary.

The State Auditor's reports for the Regent institutions and Board Office for FY 1999 contained comments on findings reported in the State's Single Audit Report as well as other findings related to internal control, statutory requirements, and other matters. None were considered significant, and corrective actions are being taken on all findings.

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.

Twenty-one completed internal audit reports are presented this month, thirteen new and eight follow-up. The Banking Committee docket memorandum provides summaries of each report and tables outlining the auditor recommendations, management responses, auditor responses, and auditor follow-up. The reports indicate that corrective action is being taken or has already been completed in a satisfactory manner.

The *Status of Internal Audit Follow-Up* table identified 29 internal audits, of which 23 still require follow-up. Internal auditors at the University of Iowa closed two audits; internal auditors at the University of Iowa Hospitals and Clinics closed one audit; and internal auditors at Iowa State University closed three audits.

Pamela M. Elliott

Approved: _____
Frank J. Stork