

**MEMORANDUM**

**To:** Board of Regents  
**From:** Board Office  
**Subject:** Report of the Banking Committee  
**Date:** March 5, 2003

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**Recommended Actions:**

New Fund Manager 1. Approve the selection of Wellington Management Company as the new short duration fixed income manager for optional use by the Regent institutions for their operating portfolios.

ISU Bond Sale 2. Adopt the following resolutions subject to receipt of acceptable bids:  
 A Resolution providing for the sale and award of \$21,575,000 Dormitory 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 \$21,575,000 Dormitory Revenue Bonds, Series I.S.U. 2003, for the purpose of constructing, furnishing and equipping a residence hall and related facilities and making other necessary improvements to existing residence halls and related facilities, all located on the campus of the University, including funding the debt service reserve fund, and paying the costs of issuance of the Bonds.

**(ROLL CALL VOTE)**

Revised Bond Schedule 3. Approve a revised schedule for the issuance of bonds for April and May, 2003.

SUI Bond Sale 4. Subject to approval of the revised bond issuance schedule for the months of April and May 2003, adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$10,600,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2003.

**(ROLL CALL VOTE)**

UNI Bond Sale 5. Subject to approval of the revised bond issuance schedule for the months of April and May 2003, adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$9,200,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2003.

**(ROLL CALL VOTE)**

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| Master Lease Financing (SUI) | 6. Authorize the University of Iowa to utilize master lease financing in the amount of \$700,000 for the purchase of property located at 2421 James Street, Coralville, Iowa.  |
| Computer Lease Program (ISU) | 7. Approve the College of Design at Iowa State University to continue to offer a computer lease program to students.<br><br>Authorize the Executive Director, on behalf of the Board and Iowa State University, to enter into a financing arrangement of up to \$600,000 for FY 2004 for the third year of the computer lease program. |
|                              | 8. 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 March 11, 2003, the Banking Committee is scheduled to consider approval of:

- The minutes from the January 2003 Banking Committee meeting
- Updated Bond Issuance Schedule (months of April and May)
- Resolutions for Bond Sales
- Use of Master Lease Financing - SUI property purchase
- Selection of a Short Duration Fixed Income Manager
- Continuance of College of Design Computer Lease Program – ISU

Reports                      The Banking Committee is scheduled to receive reports on:

- Quarterly Investment and Cash Management
- Performance Evaluation of External Investment Fund Managers
- Costs of Bond Issuance
- Internal Audits

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**Background and Analysis:**

Minutes                    The minutes of the January 2003 Banking Committee meeting are included with the Banking Committee materials.

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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 December 31, 2002		
	<u>Operating</u>	<u>Endowment/ Quasi-Endowment</u>
University of Iowa <sup>1</sup>	\$566,686	\$260,113 <sup>2</sup>
Iowa State University	252,934	100,239 <sup>3</sup>
University of Northern Iowa	75,621	-
Iowa School for the Deaf	2,304	-
Iowa Braille & Sight Saving School	<u>462</u>	<u>-</u>
Total	\$898,007	\$360,352

<sup>1</sup> Includes UIHC.

<sup>2</sup> Includes UNI.

<sup>3</sup> Includes ISD and IBSSS.

As of December 31, 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 \$898.0 million. The university operating portfolios performed in line with industry standards while BlackRock, the investment manager for the operating portfolios, outperformed the same standards.

Endowment                    Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment / quasi endowment portfolio, which totaled \$360.4 million.

The combined investment managers' returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios were 5.8% and 5.5%, respectively, for the quarter. The blended asset allocation benchmark posted returns of 5.9% for the quarter.

The quasi endowment totaled of \$94.6 million and returned 1.6% for the quarter ending December 31, 2002, which equaled the benchmark for that quarter.

Wilshire reported that Alliance Bernstein outperformed its benchmark, Seneca underperformed its benchmark, and the remaining four endowment investment managers were comparable to their respective benchmarks.

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Investment Issues Two corporate bonds, El Paso Corp. and PDVSA Finance, held by Reams Asset Management were downgraded below investment grade. Wilshire recommended that Reams retain El Paso for the near term. Regarding PDVSA Finance, Reams indicated they are confident that all principal and interest will ultimately be paid in full.

The internal auditors verified that remaining investment purchases and holdings during the year ended December 31, 2002, were in compliance with respective Board and institutional investment policies.

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Performance  
Evaluation of  
Fund Managers

Wilshire Associates has been the investment advisor to the Board and its institutions since May 1996. Mark Brubaker of Wilshire Associates will review the annual performance of the external fund managers.

BlackRock is currently the only external fund manager that invests some of the institutional operating funds.

Representatives from external investment fund managers who have provided investment services for at least a year will make presentations. These are:

- Alliance Bernstein & Co., Inc.
- Invesco Capital Management
- Reams Asset Management
- Seneca Capital Management
- Blackrock
- Vanguard

The selection committee recommends that Wellington Management Company be approved as a new short duration fixed income manager for operating funds.

The utilization of this new fund manager by the Regent institutions for the operating portfolios is intended to provide an option, not a mandate for the institutions.

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Approval of Short  
Duration Fixed  
Income Manager

As discussed at the January 2003 Banking Committee meeting, the Regent institutions requested permission to begin a process for evaluating options for moving more of the operating portfolios to professional external fund managers.

Wilshire Associates was requested to identify three short duration fixed income manager candidates to begin the selection process.

On February 13, 2003, the selection committee interviewed three candidate firms and recommended that Wellington Management Company be approved as a new short duration fixed income manager for operating funds.

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The utilization of this new fund manager by the Regent institutions for the operating portfolios is intended to provide an option, not a mandate for the institutions.

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ISU Bond Sale

The Board is requested to adopt two resolutions related to the sale and award and issuance of \$21,575,000 Dormitory Revenue Bonds, Series I.S.U. 2003.

At its January 2003 meeting, the Board authorized the Executive Director to fix the date(s) for the sale and issuance of Dormitory Revenue Bonds, Series I.S.U., which would be sold to construct a second, four-story, suite-style residential facility. This facility would be 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 \$1.5 million annually to be paid from the net rents, profits and income of the entire 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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Updated Bond  
Issuance Schedule

At its meeting in November 2002, the Board established a bond issuance schedule for calendar year 2003; the schedule did not include any refundings which might be possible due to low interest rates.

Springsted, the Board's financial advisor, Ahlers, the Board's bond counsel, and the Board Office have identified three possible Academic Building Revenue Bond refundings. Subject to approval of the revised bond issuance schedule, preliminary resolutions for the sales of the refunding bonds, which would occur at the April 2003 Board meeting, are included in B.C. 7 and B.C. 8.

The schedule approved in November 2002 included the sale of an estimated \$16.5 million in University of Iowa Parking System Revenue Bonds in May 2003. The University has advised the Board Office that it is not ready to proceed with the sale in May 2003.

Board Office discussions with the universities have raised the possibility of a Dormitory Revenue Bond issue for Iowa State University in May.

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Proposed  
SUI Bond Sale

Subject to approval of the revised bond issuance schedule for the months of April and May 2003, the Board is requested to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$10,600,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2003.

As discussed previously with the Banking Committee, 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 proposed refunding would be a current refunding, as the call date for the outstanding bonds is July 1, 2003.

All outstanding bonds of the Academic Building Revenue Refunding Bonds, Series S.U.I. 1993 (originally issued in the amount of \$16,900,000) would be called and principal payments made on July 1, 2003.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue.

The estimated net future value and net present value savings from the refunding in future tuition replacement appropriations between 2004 and 2012 total more than \$600,000 and \$500,000, respectively.

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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Proposed  
UNI Bond Sale

Subject to approval of the revised bond issuance schedule for the months of April and May 2003 (see B.C. 6), the Banking Committee is requested to recommend that the Board adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$9,200,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2003.

The proposed refunding would be a current refunding, as the call date for the outstanding bonds is July 1, 2003. All outstanding bonds of the Academic Building Revenue Bonds, Series U.N.I. 1992 (originally issued in the amount of \$7,440,000) and Series U.N.I. 1993 (originally issued in the amount of \$3,900,000) would be called and principal payments made on July 1, 2003.

Pursuant to §229 of House File 2627 of the 2002 General Assembly, the refunding needs to be done in coordination with the Tobacco Settlement Authority. Correspondence has been sent to the Tobacco Settlement Authority requesting necessary approvals.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue.

The estimated net future value and net present value savings from the refunding in future tuition replacement appropriations between 2004 and 2015 total approximately \$900,000 and \$700,000, respectively.

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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Costs of Bond  
Issuance

The Banking Committee has requested reports identifying the costs associated with each bond issuance. The report provided to the Banking Committee in January 2003 included issuance costs for the September 2002 sale of University of Iowa Facilities Corporation Bonds, Series S.U.I. 2002, and University of Northern Iowa Dormitory Revenue Refunding Bonds, Series U.N.I. 2002.

This month's report includes the issuance costs for the November 2002 sale of Hospital Revenue Bonds which were sold to finance a portion of the cost of the Center for Excellence in Image-Guided Radiation Therapy and the three stories of shell space above the Center.

The costs of issuance for the bond issue is \$ 109,901.52.

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Master Lease  
Financing - SUI

The University of Iowa requests approval to utilize \$700,000 in master lease financing to purchase property located at 2421 James Street, Coralville, Iowa.

The property consists of a total of 15,000 square feet of commercial condominium space located west of the University's far west campus and south of Highway 6.

The University wishes to purchase the property to house a model of the Priest Rapids Dam, Grant County, Washington, for a research project of the IIHR – Hydroscience and Engineering.

The University proposes to finance the project over a five-year period, with the final interest rate set per the master lease agreement at the time the borrowing commitment is executed.

- The estimated interest rate is approximately 3.6 percent, which would result in semi-annual payments of \$77,400.
- Funding for the semi-annual payments would come from the Institute's grant funds from the Utility District.

The University's proposal has been reviewed by the Ahlers law firm which has confirmed that the research project meets the qualifications for use of tax-exempt financing under the Board's master lease program.

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Computer Lease  
Program - ISU

In July 2001, the Board authorized the College of Design to enter into a financing agreement of up to \$900,000 for the University's purchase of approximately 250 laptop computers for leasing to students in the College of Design.

The College of Design laptop lease program began in the Fall of 2001 with the purchase of 36 Macintosh machines and 51 Dell laptops. The idea was to provide students with equipment and software to make them successful in the classroom at a price they could afford.

In March 2002, the Board approved the College of Design continuing to offer the computer lease program to students, and in June 2002, the Board authorized the College of Design to enter into a financing agreement of up to \$650,000 for the purchase of 250 laptop computers for leasing to students in the College.

The College of Design reports that the program has been successful and requests that a third year be approved.

The Board is requested to approve the continuation of the computer lease program and that the Executive Director be authorized to enter into the financing arrangement on behalf of the Board approve a financing arrangement of up to \$600,000 for FY 2004 for the University's purchase of approximately 200 laptop computers for leasing to students in the College of Design.

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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.

One new Iowa State University audit and eight follow-up reports from the University of Iowa are presented this month; five follow-up reports are closed, and three remain open. The Status of Internal Audit identifies 14 internal audit reports, 9 of which require follow-up.

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Pamela M. Elliott

Approved:   
Gregory S. Nichols