

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: November 5, 2001

**Recommended
Actions:**

1. Adopt the following resolutions, subject to the receipt of acceptable bids:

A Resolution providing for the sale and award of \$4,835,000 Iowa Memorial Union Revenue Refunding Bonds, Series S.U.I. 2001, and approving and authorizing the agreement of such sale and award.

A Resolution authorizing and providing for the issuance and securing the payment of \$4,835,000 Iowa Memorial Union Revenue Refunding Bonds, Series S.U.I. 2001, for the purpose of defraying costs of refunding Iowa Memorial Union Revenue Bonds, Series S.U. I. 1986, now outstanding in the amount of \$5,025,000, funding a reserve fund and paying the costs of issuance.

(ROLL CALL VOTE)

2. Adopt the following resolutions, subject to the receipt of acceptable bids:

A Resolution providing for the sale and award of \$5,625,000 Field House Revenue Bonds, Series U.N.I. 2001, and approving and authorizing the agreement of such sale and award.

A Resolution authorizing and providing for the issuance and securing the payment of \$5,625,000 Field House Revenue Bonds, Series U.N.I. 2001, for the purpose of defraying costs of repairing the structure and roof and providing other improvements to the UNI-Dome Field House located on the campus of the University of Northern Iowa, funding a reserve fund, and paying the costs of issuance.

(ROLL CALL VOTE)

3. Approve a schedule for the issuance of bonds for calendar year 2002 as detailed in this memorandum.
4. Adopt the following resolution, subject to approval of the bond issuance schedule for calendar year 2002:

A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$15,100,000 Dormitory Revenue Bonds, Series I.S.U. 2002.

(ROLL CALL VOTE)

5. Adopt A Resolution Approving Electronic Bidding Procedures.
 6. Accept the Report of the Banking Committee.
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**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 November 14, 2001, the Banking Committee is scheduled to consider approval of:

- The minutes from the October 2001 Banking Committee meeting;
- Resolutions for:
 - Sale and Award of \$4,835,000 Memorial Union Revenue Refunding Bonds, Series SUI 2001
 - Sale and Award of \$5,625,000 Fieldhouse Revenue Bonds, Series UNI 2001
- Preliminary Resolutions for:
 - Dormitory Revenue Bonds, Series ISU 2002

The Banking Committee is also scheduled to consider approval of the following:

- Proposed Bond Issuance Schedule for Calendar Year 2002
- Electronic Bidding – Board of Regents Bonds
- Selection of Master Lease Provider
- Selection of Investment Advisor
- Employee Compensation Endowment
- Modification of Banking Relationships

The Banking Committee is scheduled to receive reports on:

- Investment and Cash Management for the Quarter Ending September 30, 2001
 - External Audit from the University of Northern Iowa for its Field House bond fund
 - Status of Internal Audits
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Background:

Minutes

Approve Minutes of the October 2001 Banking Committee Meeting

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

SUI Bond
Resolution

Resolutions for the Sale and Award of \$4,835,000 Memorial Union Revenue Refunding Bonds, Series SUI 2001

The Banking Committee is requested to recommend that the Board adopt two resolutions related to the sale and award and issuance of \$4,835,000 Memorial Union Revenue Refunding Bonds, Series S.U.I. 2001.

At its October 2001 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to refund the sum of \$5,025,000 in outstanding Memorial Union Revenue Bonds, Series 1986.

The fall in interest rates in recent months has provided the opportunity for a cost effective refunding. It is now envisioned that the refunding will save an additional sum above the amount estimated last month when the Board approved the preliminary resolution for the sale.

The coupon rate on the outstanding Memorial Union bonds is 6.1% for all maturities. Current interest rates for bonds maturing between 2002 and 2009 (the last payout year) are significantly lower.

The refunding bonds would have the same payout year at the 1986 bonds. The estimated net and present value savings from the refunding are approximately \$425,000 and \$380,000 respectively. Estimated annual debt service savings will be approximately \$50,000.

Debt service payments would continue to be paid from net revenues of the Memorial Union. The term "Net Revenues" is defined in the bond resolution as the gross earnings of the Iowa Memorial Union from Student Union Fees and project income after deduction of current expenses. (Student Union Building Fees from designated tuition are \$25.92 / academic year and \$6.00 / summer session.)

UNI Bond
Resolution

Resolutions for the Sale and Award of \$5,625,000 Fieldhouse Revenue Bonds, Series UNI 2001

The Banking Committee is requested to recommend that the Board adopt two resolutions related to the sale and award and issuance of \$5,625,000 Field House Revenue Bonds, Series U.N.I. 2001.

At its October 2001 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds which would be sold to finance, in part, repairs to the structure and roof and make other improvements to the UNI-Dome.

The bonds would be repaid over a period of 20 years, with debt service of approximately \$433,000 annually to be paid from student building fees from designated tuition and project income.

Bond Schedule

Proposed Bond Schedule for Calendar Year 2002

The proposed schedule for calendar year 2002 is only a planning guide. It does not include any bonds which would require legislative authorization. Approval of the schedule does not indicate that the Board Office has reviewed or recommended approval of all projects to be financed from the proposed sales or that the Board will approve the projects and the bond sale amounts. The proposed 2002 schedule is shown in the following table:

<u>Month</u>	<u>Institution/Type of Issue</u>	<u>Estimated Amount of Bond Issue</u>
Jan. 02	ISU Residence System	\$15,100,000
Feb 02	SUI Utility System	15,000,000
Mar 02	UNI Maucker Union	12,900,000
Apr 02	SUI Academic Building Refunding	15,600,000
May 02	ISU Parking	11,000,000
May 02	UNI Academic Building Refunding	5,000,000
June 02	SUI Facilities Corporation (Health Science)	13,500,000
Sept. 02	SUI Facilities Corporation: MEBRF – B	25,800,000
Oct. 02	SUI Athletics	11,200,000
Oct. 02	SUI Parking	11,200,000
Nov. 02	SUI Facilities Corporation: Careers Center	<u>11,200,000</u>
	Total	\$147,500,000

* Estimated maximum amount.

The above schedule has been reviewed and agreed to by the universities; Ahlers Law Firm, the Board's bond counsel; and Springsted, Inc, the Board's financial advisor.

The proposed schedule includes \$50.5 million in bonds to be issued through the University of Iowa Facilities Corporation. The bonds for the Health Science Capital Plan and the Careers Building would be sold in anticipation of gifts for the projects that will be received over a number of years. Construction of MEBRF-B would also be financed by bonds to be issued by the University of Iowa Facilities Corporation.

ISU Bond
Resolution

Preliminary Resolution - ISU Dormitory Revenue Bonds, Series ISU 2002

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 \$15,100,000 Dormitory Revenue Bonds, Series I.S.U. 2002.

The bonds would be sold to construct a new community center for the Union Drive Neighborhood residential community at Iowa State University.

Principal on the bonds would be repaid over a period of 25 years, with debt service of approximately \$1,060,500 to be paid from the net rents, profits and income from the operation of the residence system.

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

Electronic Bidding

Electronic Bidding – Board of Regents Bonds

The 2000 General Assembly passed a law permitting the use of electronic bidding for bonds and notes by a public body.

Springsted, Inc., the Board's financial advisor, has used electronic bidding for a number of its clients and reports positive results by offering bidders this option.

There is no cost to the issuer to use electronic bidding.

The electronic bid option would not be used to the exclusion of other methods of submitting a bid, but is an additional option available to an issuer to enhance the bidding process.

Springsted recommends that the Board provide the electronic bid option to bidders using the Parity system (the most widely used and preferred system by underwriters), beginning with the January 2002 sale of Dormitory Revenue Bonds for Iowa State University.

To offer the electronic bid option, the Board must adopt a resolution providing for this option and determining that the procedure adopted will provide reasonable security and maintain the integrity of the competitive bidding process.

Ahlers has prepared the required resolution, which is included in the Regent Exhibit Book.

Investment Report

Investment and Cash Management Report for the Quarter Ending September 30, 2001

As of September 30, 2001, total Regent combined operating and endowment portfolios exceeded \$1.1 billion.

The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$835.3 million. The university operating investment portfolios performed in line with comparable industry standards.

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment portfolio, which totals \$305.5 million. The combined investment managers' returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios were -14.4% and -13.8%, respectively, for the quarter. The blended asset allocation benchmark posted returns of -15.8% for the year. Wilshire reported that the three endowment investment managers were close to their respective benchmarks.

University internal auditors verified that investment purchases and holdings of the institutional portfolios during the year ended September 30, 2001, were in compliance with respective Board and institutional investment policies.

The quarter ended September 30, 2001, was the first quarter for deposits to Reams Asset Management, the second fixed income manager utilized by the Board. The Board may want to consider establishing a manager allocation, between Invesco and Reams, for the University of Iowa's quasi-endowment portfolios similar to the other manager allocations.

Master Lease

Selection of Master Lease Provider

Past practice of the Board has been to enter into a master lease agreement through the issuance of a Request for Proposals (RFP) process.

The master lease program has operated through Wells Fargo (previously known as Norwest Investment Services) as a result of RFP processes held in 1991 and 1996. The current agreement expires on December 1, 2001.

The Board Office distributed an RFP for the master lease program on July 23, 2001 to establish a two-year agreement with the possibility of three annual renewals for a total of five years.

The Board Office received proposals from the following firms:

- Wells Fargo Brokerage Services, LLC
- GE Capital
- US Bank

A screening committee comprised of representatives of the universities, Board Office, Regents bond counsel, and Regents financial advisor reviewed the proposals and determined that Wells Fargo submitted the most financially competitive, responsive proposal. Further discussions were held to clarify some of the items in Wells Fargo's response and to discuss terms of a proposed contract.

Investment Advisor **Selection of Investment Advisor**

The Board of Regents employs an investment advisor and money managers to guide its policy of active investment management. There is no established Board policy or other requirement to conduct a periodic review of the contract or performance of the investment advisor.

Wilshire Associates has been the investment advisor to the Board and Regent institutions since May 1996. Although the contract is open ended, the annual contract service fee amount was subject to change June 30, 2001. As reported to the Banking Committee in December 2000, the principal consultant had resigned from Wilshire Associates in October 2000 and Wilshire named a new representative to interact with the Board and its institutions. The Board and Wilshire agreed to extend the contract at the current rate until December 31, 2001. This extension provided university officials and Board Office staff an opportunity to work with the new Wilshire representative.

Five proposals for investment advisor were submitted to the Board. The selection committees, comprised of Banking Committee members, University representatives, and Board Office staff, reviewed the proposals and are scheduled to interview three of the five candidates on November 7. The selection committee recommendation will be presented during the Banking Committee.

Endowment
Establishment

Employee Compensation Endowment

The Regent universities have held insurance policies with companies which are a part of Principal for many years. As Principal has received authorization to demilitarize, the proceeds of the demutualization will be allocated to policy holders.

In order to insure that the assets which are distributed to the universities as policy holders are used for the purposes permissible by law, legal counsel has recommended that the Board adopt a resolution which establishes a separate permanent endowment to receive the proceeds at each university.

Banking Changes **Modification of 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.

SUI The University is requesting that the maximum depository balance at Wells Fargo be increased from \$50,000,000 to \$75,000,000 due to the recent disruption in the financial markets that negatively impacted fund liquidity. The University doesn't expect to exceed the current maximum, however, if financial markets were disrupted again, this provides some flexibility to the University.

There is no deposit amount at the Wells Fargo Bank Iowa – Atlantic, therefore the University requests that the \$10,000 shown be deleted

ISU The University is requesting that the maximum depository balance at Wells Fargo be increased from \$50,000,000 to \$75,000,000 due to the recent disruption in the financial markets that negatively impacted fund liquidity. The University doesn't expect to exceed the current maximum, however, if financial markets were disrupted again, this provides some flexibility to the University.

UNI No changes requested.

ISD The School uses Iowa State University for its investments and therefore requests an update changing Bank of America to Wells Fargo Bank – Des Moines to reflect the appropriate investment paying agent.

IBSSS No changes requested.

UNI Bond Audit **External Audit Report**

Bond covenants require independent audits for each fiscal year that bonds are outstanding. Presented this month is the Field House Revenue Bond Funds audit for the University of Northern Iowa.

An independent audit was conducted on the financial statements of the field house revenue bond funds at the University of Northern Iowa for the fiscal year ended June 30, 2001, as required by the bond covenants.

The audit report indicated that the financial statements of the fieldhouse revenue bond funds were presented fairly in all material respects. No significant audit adjustments or disagreements were reported.

**Internal Audit
Reports**

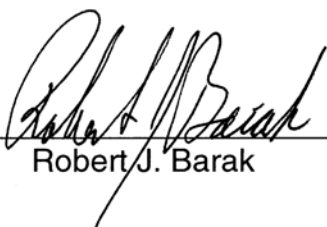
Completed institutional internal audit reports were presented to the Banking Committee as required by Board policy. The Board Office monitors the progress of the institutions' follow-up on these reports. When corrective action has been satisfactorily completed, the audits are closed.

One follow-up audit report is presented.

The Status of Internal Audit Follow-Up report reflected the current status of the follow-up audits organized by university. The report identified 18 internal audit reports, 17 of which require follow-up.



Pamela M. Elliott

Approved: 

Robert J. Barak