

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: October 8, 2001

**Recommended
Actions:**

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

A Resolution providing for the sale and award of \$13,735,000 Dormitory Revenue 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 \$13,735,000 Dormitory Revenue Bonds, Series S.U.I. 2001, for the purpose of constructing necessary improvements to and equipping existing residence halls and related facilities, all located on the campus of The State University of Iowa, including funding the debt service reserve fund and paying costs of issuing the Bonds.
(ROLL CALL VOTE)

2. Adopt the following resolution:

A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$4,900,000 Memorial Union Revenue Refunding Bonds, Series S.U.I. 2001.
(ROLL CALL VOTE)

3. Adopt the following resolution:

A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$5,900,000 Field House Revenue Bonds, Series U.N.I. 2001.
(ROLL CALL VOTE)

4. Adopt the following resolution:

A Resolution declaring an official intent under Treasury Regulation 1.150-2 to issue debt to reimburse the University of Iowa Utility System for certain original expenditures paid in connection with specified projects.
(ROLL CALL VOTE)

5. 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 October 17, 2001, the Banking Committee is scheduled to consider approval of:

- The minutes from the September 2001 Banking Committee meeting;
- Four resolutions for bonds:
 - The Sale and Award of \$13,735,000 Dormitory Revenue Bonds, Series SUI 2001;
 - A preliminary resolution for the Sale of up to \$4,900,000 Memorial Union Revenue Refunding Bonds, Series SUI 2001;
 - A preliminary resolution for the Sale of up to \$5,900,000 Fieldhouse Revenue Bonds, Series UNI 2001; and
 - A reimbursement resolution for Power Plant – Boiler #10 Repairs (SUI).

The Banking Committee is also scheduled to receive a report on the Annual Investment and Cash Management Report, the Semi-Annual Master Lease Report, a state audit report for Iowa State University, and internal audit reports from Iowa State University.

Background:

Minutes

Approve Minutes of the September 2001 Banking Committee Meeting

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

*Dormitory Bonds
(SUI)*

Resolutions for the Sale and Award of \$13,735,000 Dormitory Revenue Bonds, Series SUI 2001

The Board is requested to adopt two resolutions related to the sale and award and issuance of \$13,735,000 Dormitory Revenue Bonds, Series S.U.I. 2001. At its September 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, the renovation of the former dining area in Currier Residence Hall and fire protection upgrades in Currier, Stanley, Burge and Daum residence halls.

At its May 2001 meeting, the Banking Committee and Board approved a reimbursement resolution which will permit the University to be reimbursed from future Dormitory (Residence) System Revenue Bond issues for four residence system projects, including the three projects to be financed by the proposed bond issue.

The bonds would be issued for a period of 20 years, with debt service of approximately \$1,068,000 annually to be paid from 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.

*Memorial Union
Refunding Bonds
(SUI)*

Preliminary Resolution for the Sale of up to \$4,900,000 Memorial Union Revenue Refunding Bonds, Series SUI 2001

As interest rates have continued to fall in recent weeks, the universities, the Board Office, Springsted, Inc., the Board's financial advisor, and Ahlers Law Firm, the Board's bond counsel, have continued to review the feasibility and cost effectiveness of refunding additional bond issues.

This review has identified the possible refunding of the 1986 University of Iowa Memorial Union Revenue Bonds. The bonds were issued in 1986 in the amount of \$9,000,000 to help defray the cost of renovating the Memorial Union. The sum of \$5,025,000 in bonds remains outstanding, with the last maturity date being 2009. The coupon rate on the outstanding bonds is 6.1% for all maturities. Current interest rates for bonds maturing between 2002 and 2009 are significantly lower.

The Board is requested to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$4,900,000 Memorial Union Refunding Bonds, Series S.U.I. 2001.

The refunding bonds would have the same payout year as the 1986 bonds. The estimated net and present value savings from the refunding are approximately \$250,000 and \$200,000 respectively. Estimated annual debt service savings will be approximately \$30,000. Debt service payments would continue to be paid from net rents, profits and income of the Student Union and the Student Union Building Fees from designated tuition (\$25.92 / academic year and \$6.00 / summer session).

*Fieldhouse Bonds
(UNI)*

Preliminary Resolution for the Sale of up to \$5,900,000 Fieldhouse Revenue Bonds, Series UNI 2001

The Board is requested to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$5,900,000 Field House Revenue Bonds, Series U.N.I. 2001.

The bonds would be sold to modify the structure and roof and provide other improvements to the UNI-Dome Field House, funding a reserve fund, and paying costs of issuance.

The bonds would be repaid over a period of 20 years, with debt service of approximately \$440,000 annually to be paid from student building fees from designated tuition and project income.

*Boiler #10 Repairs
(SU)*

Reimbursement Resolution, Power Plant - Boiler #10 Repairs (SUI)

The University of Iowa requests adoption of a resolution which will permit the University to be reimbursed from a future Utility System Revenue Bond issue for major repair work to Boiler #10 in the main campus power plant. The University has previously presented this project to the Board and the Board has approved a number of capital improvement procedural steps.

The reimbursement resolution is being submitted at this time to ensure maximum reimbursement capability under regulations of the federal Internal Revenue Code. Pursuant to these regulations, project payments made not more than 60 days prior to adoption of the resolution are eligible for reimbursement from future bond issues. A construction contract has been awarded for work on Boiler #10; by the terms of the contract this work is to be completed by November 16, 2001.

Investment Report

Annual Investment and Cash Management Report

This report was originally scheduled to be presented at the September Banking Committee meeting. Due to the closing of all national airports, Mark Brubaker of Wilshire Associates in Pennsylvania was unable to travel to present the quarterly report.

The Regent institutions maintain two investment portfolios — operating and endowment/quasi-endowment. Both portfolios include restricted and unrestricted funds. As of June 30, 2001, total Regent combined operating and endowment portfolios exceeded \$1 billion for the sixth quarter in a row.

The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$851.5 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 \$290.4 million. The combined investment managers' returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios were each 3.3% for the year. The blended asset allocation benchmark posted returns of 3.7% 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 June 30, 2001, were in compliance with respective Board and institutional investment policies.

*Master Lease
Report*

**Semi-Annual Master Lease Report; Status of Request for Proposals
– Master Lease Agreement**

The Board has utilized the master lease concept since July 1985. Since November 1991, the master lease program has operated through Wells Fargo (previously known as Norwest Investment Services) as a result of competitive bidding through Request for Proposal (RFP) processes held in 1991 and 1996.

The current master lease agreement became effective December 1, 1996, for an initial two-year period with a provision to renew for one additional, three-year period upon mutual consent. At its October 1998 meeting, the Board approved extension of the agreement for the additional term. Wells Fargo agreed to this extension, which was effective December 1, 1998.

The Regents hold title to the leased real and personal property while Wells Fargo holds a first lien security interest; the extent of Wells Fargo's security interest is reduced as the principal is paid.

The lease financing option offers certain advantages for financing necessary and essential property.

- Leases do not have the high origination costs of small bond issues that result from establishment of bond reserve funds, underwriter discounts, and issuance expenses.
- The negotiation of lease financing terms and amortization schedules allows lease payments to be better matched with available cash flows.

The Regent Procedural Guide §7.32 also provides that the institutions may execute vendor-financed leases or installment purchase agreements. Agreements in excess of \$100,000 for the universities and \$10,000 for the special schools are approved by the Executive Director and reported to the Legislative Fiscal Bureau.

Audits

State Auditor Report

During FY 1995, the State Auditor's Office began reviewing transactions at Iowa State University to determine departmental compliance with certain established University guidelines. This report provides follow-up procedures performed on activity during the six months ended March 31, 2001.

It details auditors' comments and recommendations for the specific departments. Further follow-up is dependent on the State Auditor's Office.

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.

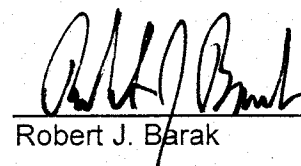
Five completed internal audit reports were presented, three new, and two follow-ups. The two follow-up audits were closed while the three new audits require additional follow-up: Athletic Ticket Office (ISU), Human Subjects in Research (ISU), and Student Health Center (ISU).

The Status of Internal Audit Follow-Up report reflected the current status of the follow-up audits organized by university. The report identified 20 internal audit reports, 18 of which require follow-up.



Pamela M. Elliott

Approved: _____


Robert J. Barak