

**MEMORANDUM**

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

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**Recommended Actions:**

Sale of ISU  
Regulated Materials  
Bonds

1. Adopt the following:

A Resolution providing for the sale and award of \$6,750,000 Regulated Materials Facility Revenue Bonds, Series I.S.U. 2003, and approving and authorizing the agreement of such sale and award.

A Resolution establishing a self-liquidating and revenue-producing facility and authorizing and providing for the issuance and securing the payment of \$6,750,000 Regulated Materials Facility Revenue Bonds, Series I.S.U. 2003, to pay the costs of constructing, furnishing, and equipping a regulated materials facility, including the debt service reserve fund, and paying costs of issuance.

**(ROLL CALL VOTE)**

Sale of ISU  
Academic Building  
Revenue Bonds

2. Adopt the following:

A Resolution providing for the sale and award of \$7,790,000 Academic Building Revenue Refunding 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 \$7,790,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2003, for the purpose of refunding the \$7,000,000 Academic Building Revenue Project Notes, Series I.S.U. 2002, dated August 1, 2002, presently outstanding and heretofore issued by the Board to defray costs of building construction projects on the campus of Iowa State University of Science and Technology, including the debt service reserve fund, and paying costs of issuing the Bonds.

**(ROLL CALL VOTE)**

ISU Utility System  
Revenue Bonds –  
Set Date

3. Adopt the following:

A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$14,000,000 Utility System Revenue Bonds, Series I.S.U. 2003.

**(ROLL CALL VOTE)**

SUI  
Telecommunications  
Facilities Revenue  
Bonds – Set Date

4. Adopt the following:

A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$14,500,000 Telecommunications Facilities Revenue Bonds, Series S.U.I. 2003.

**(ROLL CALL VOTE)**

SUI Facilities  
Corporation First  
Mortgage Notes

5. Adopt the following:

A resolution authorizing the Executive Director to take action needed for the issuance of not more than \$1,690,000 University of Iowa Facilities Corporation First Mortgage Notes to refinance the purchase of Units 2 and 3 of the Plaza Centre One Building Condominiums.

**(ROLL CALL VOTE)**

6. Accept the remainder of the report of the Banking Committee.

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**Executive Summary:**

Approvals

The Banking Committee materials have been furnished to all Board members. During its meeting on October 16, 2003, the Banking Committee is scheduled to consider approval of:

- The minutes from the September 2003 Banking Committee meeting
- Resolution for the Sale and Award of ISU Regulated Materials Facility Revenue Bonds
- Resolution for the Sale and Award of ISU Academic Building Revenue Bonds
- Preliminary Resolution for the Sale of ISU Utility System Revenue Bonds
- Preliminary Resolution for the Sale of SUI Telecommunications System Revenue Bonds
- Resolution for Plaza Centre One Refinancing

Reports                      The Banking Committee is scheduled to receive reports on:

- State Audits
- Costs of Bond Issuance
- Feasibility Study for the UNI Arena
- Investment Policy Review

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**Background and Analysis:**

Minutes                      The minutes of the September 2003 Banking Committee meeting will be sent at a later date.

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State of Iowa  
Audit Reports                      Two State of Iowa audit reports, which are released on an annual basis, contain information regarding the five Regent institutions, the Board Office, and the rest of state government.

- The Comprehensive Annual Financial Report (CAFR) presents the aggregated financial data for the state. In the FY 2002 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; and
- The Single Audit Report (SAR) covers financial, compliance, and control aspects of federal programs administered by state agencies, institutions, and universities. There were no reports of non-compliance for the Regent Institutions and the Board Office. However, the FY 2002 report included one reportable condition related to a reporting error at Iowa State University. ISU has made the necessary report correction and has implemented additional review procedures.

These reports are normally presented each July. The Board Office held presentation of these reports until a comprehensive report of all state audits could be made by the State Auditor, David Vaudt.

Copies of the CAFR were distributed to the members of the Board of Regents by the Iowa Department of Revenue and Finance. Copies of the SAR were distributed to the members of the Board of Regents by the State Auditor's Office.

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State Auditor  
Reports                      As part of the annual audit process, the State Auditor provides written reports on certain aspects concerning the Regent institutions and the Board Office for which they believe corrective actions are necessary.

The FY 2002 State Auditor's reports for the Regent institutions contained comments on findings related to internal control, information systems control, and statutory requirements and other matters. None were considered significant.

Corrective actions are being taken to address all findings.

Audit Comments

Regent Policy Manual §7.08 requires that institutions consult with the Board Office regarding preliminary audit comments and proposed responses. All five Regent institutions submitted comments to the Board Office for the FY 2002 audit reports.

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ISU Regulated  
Materials Facility  
Revenue Bonds

The Board is requested to adopt two resolutions related to the sale and award and issuance of \$6,750,000 Regulated Materials Facility Revenue Bonds, Series I.S.U. 2003.

At its September 2003 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 construction of the Environmental Health and Safety Services Building.

The Board, at its April 2003 meeting, approved the schematic design and project description and total budget (\$10,000,000) for the Building, which will construct a 34,449 gross square foot facility to house all Environmental Health and Safety staff and facilities for processing and storing hazardous waste materials for all on-campus, extension and research farm activities of the University.

The project budget of \$10,000,000 includes \$4,000,000 from the Facilities Overhead Use Allowance and revenue bond proceeds for the project of \$6,000,000.

At its June 2003 meeting, the Board acknowledged, as part of its discussion of the future status of active capital projects, that the Environmental Health and Safety Services Building had received final project approval for construction.

Principal on the bonds would be repaid over a period of 15 years, with debt service of approximately \$600,000 annually to be paid from the net rents, profits and income derived from the Regulated Materials Facility.

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

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ISU Academic  
Building Revenue  
Bonds

The Board is requested to adopt two resolutions related to the sale and award and issuance of \$7,790,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2003.

At its September 2003 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to replace the project notes which were issued in July 2002 to provide interim financing for the Iowa State University Engineering and Teaching Research, Phase II project.

Interim financing was needed when \$7 million of the appropriation made by the 1997 General Assembly for the project was transferred from the Rebuild Iowa Infrastructure Fund to the FY 2002 General Fund by the 2002 General Assembly.

The FY 2004 appropriation by the 2002 General Assembly from the Rebuild Iowa Infrastructure Fund to replace the interim financing was deappropriated by the 2003 General Assembly.

Bonds thus need to be issued to replace the interim financing.

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

The sale of the bonds, the first sale of new Academic Building Revenue Bonds since 1995, will increase the amount needed for the tuition replacement appropriation from FY 2005 – FY 2018 above the amounts which had been previously estimated.

Based upon the analysis provided by Springsted, Inc., the Board's financial advisor, it is anticipated that the needed tuition replacement appropriation will be approximately \$720,000 annually.

Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for Iowa residents who purchase the bonds. Interest on the bonds to be refunded has also been double tax-exempt.

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ISU Utility System  
Revenue Bonds

The Board is requested to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$14,000,000 Utility System Revenue Bonds, Series I.S.U. 2003.

The Board approved the project description and total budget (\$12,000,000) for the Power Plant Turbine Generator #6 project at its January 2003 meeting.

The calendar year 2003 bond issuance schedule approved by the Board in November 2002 included a Utility System Revenue Bond sale for the project in November 2003.

Principal on the bonds would be repaid over a period of 20 years, with debt service of approximately \$985,000 annually to be paid from utility system charges and the proceeds of any utility system student fees which the Board may establish in the future.

The University's Utility System is a self-supporting operation.

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

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SUI Telecommuni-  
cations Facilities  
Revenue Bonds

The Board is requested to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$14,500,000 Telecommunications Facilities Revenue Bonds, Series S.U.I. 2003.

Interest rates, while having risen since June, 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 1995 Telecommunications Facilities Revenue Bonds, with an outstanding principal of \$9,860,000 became callable on July 1, 2003, and may be called on any date after that time.

The University also desires to finance the purchase of telephone switching equipment totaling \$4,100,000 (see G.D. 2j).

While the refunding of the 1995 bonds was not included on the calendar year 2003 bond issuance schedule, the refunding of the outstanding bonds can be combined with the issuance of new bonds to finance the purchase of the telephone switching equipment, thereby reducing interest costs for the previously borrowed and new funds.

The debt service for the refunding component of the sale is estimated to be \$1.3 million annually through July 1, 2011 (same as the last maturity for the refunded bonds) and the debt service for the switching component is estimated at \$555,000 annually through July 1, 2013. Interest on the bonds would be exempt from federal and state taxes (double tax-exempt) for individuals who are Iowa residents and purchase the bonds.

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

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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 July 2003 included issuance costs for the March, April and May 2003 bond sales.

This month's report includes the issuance costs for the following July 2003 bond sales:

- University of Iowa Facilities Corporation Revenue Bonds which were sold to finance construction of the Pomerantz Center; and
- University of Northern Iowa Academic Building Revenue Refunding Bonds which were sold to refund outstanding maturities of the 1993 Academic Building Revenue Bond issue.

The costs of issuance for the bond issues are summarized below.

<u>Bond Issue</u>	<u>Costs of Issuance</u>
University of Iowa Facilities Corporation Revenue Bonds, Series SUI 2003	\$ 56,602.90
Academic Building Revenue Refunding Bonds, Series UNI 2003	\$ 34,615.53

The next quarterly report will be provided to the Banking Committee in February 2004.

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SUI Facilities  
Corporation Notes

The Board is requested to adopt a resolution authorizing the Executive Director to take action needed for the issuance of not more than \$1,690,000 University of Iowa Facilities Corporation First Mortgage Notes to refinance the purchase of Units 2 and 3 of the Plaza Centre One Building Condominiums.

The University of Iowa Facilities Corporation was incorporated in 1967 as a not-for-profit supporting organization of the University of Iowa Foundation to assist in maintaining, developing, increasing, and extending the facilities and services of the University.

The single tax-exempt Notes would be issued to refinance the existing taxable Notes issued for the purchase of Units 2 and 3 in early 2001.

- When the Facilities Corporation initially financed the purchase of the two condominium units, a portion of the space was occupied by taxable entities; thus tax-exempt notes could not be issued.
- Taxable entities are no longer occupying the space and tax-exempt financing can now be used.

Based upon the requested Board action, the Notes, while issued by the Corporation, would be deemed under Internal Revenue Service rulings to be issued "on behalf" of the Board of Regents and the State of Iowa. Therefore, they would meet the requirements for tax-exemption of interest for federal (but not state) income tax purposes.

Based upon an analysis by Springsted, Inc., the Board's financial advisor, the refinancing would save approximately \$25,500 annually; the total present value savings between now and 2016 (the last maturity of the existing and proposed Notes) would be approximately \$238,000.

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UNI Arena

A memorandum regarding the Feasibility Study for the University of Northern Iowa Proposed Event Complex will be sent at a later date.

The Banking Committee will discuss the Feasibility Study at its meeting and may make recommendations to the Board.

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Investment Policy  
Review

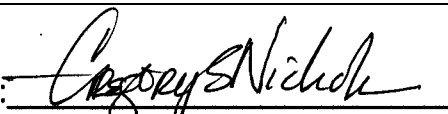
The Board staff and Regent institution treasurers, in consultation with the Wilshire Associates, the Board's investment advisor, have conducted a detailed review of the Board's investment policy. A legal review has also been conducted by Ahlers Law Firm.

The primary changes to the Board's written investment policy (previously the Policy Manual §7.34) are as follows:

- Ensured all previous actions taken by the Board were incorporated, such as asset allocation guidelines and manager.
- Incorporated changes in statutory investment language.
- Restructured the overall policy:
  - Separated the Operating Fund and Endowment Funds.
  - Consolidated items by category and eliminated redundancies or contradictions.
- Better defined asset class objectives, quasi-endowments, fees authorization, spending policy, selection criteria for external providers, performance evaluation standards, and reporting requirements.
- Expanded authorized investments:
  - Fixed income includes Yankee bonds and endowment fixed income investments include convertibles.
  - Domestic equities include listed real estate investment trusts.
  - International equities allow external managers to invest in developed market countries included in the MSCI World ex-US Index.
- Lowered minimum credit quality for mortgage-backed securities and asset-backed securities to A from AAA.
- Applied effective maturity to callable securities by defining it as weighted average life.
- Added duration language and AA weighted average credit quality to Operating Fund Guidelines.
- Removed certain restrictions on 144A Fixed Income Securities.
- Deleted obsolete language.

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Jean A. Friedrich

Approved:   
Gregory S. Nichols