

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: September 8, 2003

Recommended Actions:

Sale of SUI
 Dormitory Bonds

1. Adopt the following:

A Resolution providing for the sale and award of \$25,000,000 Dormitory Revenue Bonds, Series S.U.I. 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 \$25,000,000 Dormitory Revenue Bonds, Series S.U.I. 2003, for the purpose of paying costs of repairing, remodeling, and constructing improvements to and equipping existing residence halls and related facilities 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)

ISU Regulated
 Materials Bonds –
 Set Date

2. Adopt the following:

A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$7,000,000 Regulated Materials Facility Revenue Bonds, Series I.S.U. 2003.

(ROLL CALL VOTE)

ISU Academic
 Building 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 \$8,000,000 Academic Building Revenue Bonds, Series I.S.U. 2003.

(ROLL CALL VOTE)

ISU
 Reimbursement
 Resolution

4. Adopt the following:

A Resolution declaring an official intent under Treasury Regulation 1.150-2 to issue debt to reimburse the Iowa State University of Science and Technology Utility System for certain original expenditures paid in connection with specified projects.

(ROLL CALL VOTE)

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5. Authorize the University of Iowa to:

Assist with the formation of a captive mutual insurance company for the purpose of providing medical liability insurance, within defined limits, for the participants of the Carver College of Medicine Faculty Practice Plan

Purchase surplus notes from the mutual company to be formed in the amount of \$20 million to meet the statutorily required insurance surplus.

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

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 September 16, 2003, the Banking Committee is scheduled to consider approval of:

- The minutes from the July 2003 Banking Committee meeting
- Resolution for Sale and Award of SUI Dormitory Revenue Bonds
- Preliminary Resolution for Sale of ISU Regulated Materials Facility Revenue Bonds
- Preliminary Resolution for Sale of ISU Academic Building Revenue Bonds
- The University of Iowa's request to assist with the formation of a captive mutual insurance company and purchase surplus notes from the mutual company to be formed.

Reports

The Banking Committee is scheduled to receive reports on:

- Refunding Savings
 - Quarterly Investment and Cash Management
 - Internal Audits
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Background and Analysis:

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

SUI Dormitory
Revenue Bonds
Sale The Board is requested to adopt two resolutions related to the sale and award and issuance of \$25,000,000 Dormitory Revenue Bonds, Series S.U.I. 2003.

At its July 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 a number of projects in the University's Residence System including the Burge Residence Hall Remodel Food Service Area project, fire protection upgrades for Rienow, Quadrangle and Parklawn Residence Halls, and improvements to Mayflower Residence Hall.

Principal on the bonds would be repaid over a period of 20 years, with debt service of approximately \$1,960,000 annually to be paid from the net rents, profits and income of the Residence System.

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.

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

ISU Regulated
Materials Facility
Revenue Bonds –
Set Date The Board is requested to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$7,000,000 Regulated Materials Facility Revenue Bonds, Series I.S.U. 2003.

The Board, at its April 2003 meeting, approved the schematic design and project description and total budget (\$10,000,000) for the Environmental Health and Safety Services 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.

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.

The Regulated Materials Facility enterprise would be established with the bond sale to finance the Environmental Health and Safety Services Building project. Since this is a new enterprise, there are no outstanding bond issues.

Principal on the bonds would be repaid over a period of 15 years, with debt service of approximately \$620,000 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.

ISU Academic
Building Revenue
Bonds – Set Date

The Board is requested to adopt a resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$8,000,000 Academic Building Revenue Bonds, Series I.S.U. 2003.

The bonds 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 State 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.

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 increase by \$750,000 annually.

ISU
Reimbursement
Resolution

Iowa State University requests adoption of a resolution which will permit the University's Utility System to be reimbursed from a future Utility System bond issue for expenditures associated with the Utilities – Power Plant Turbine Generator #6 project.

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

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.

Savings from Bond Refundings Present value savings (which are net of issuance costs) from refunding bonds total \$7.6 million for calendar years 2001 – 2003 (to date), of which \$5.7 million in savings were from Academic Building Revenue Bond Refundings.

The savings from Academic Building Revenue Bond Refundings directly reduce the tuition replacement appropriations needed from the state in future years, all other factors being equal.

Investment and Cash Management Report The Regent institutions maintain two investment portfolios — operating and endowment/Quasi-endowment. Both portfolios include restricted and unrestricted funds. As of June 30, 2003, the Regent combined operating and endowment portfolios total \$1.3 billion.

Operating The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$908.3 million as of June 30, 2003, and represent a point in time during operations. The operating portfolios performed in line with quarterly industry standards. BlackRock outperformed industry standards.

Endowment Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment/quasi-endowment portfolio, which totaled \$380.5 million for the quarter.

The University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios totaled \$175.8 million and \$109.1 million, respectively, as of June 30, 2003. The combined investment managers' returns for the quarter were 13.1% for SUI and 13.3% for ISU, while the blended asset allocation benchmark posted returns of 12.5%.

The SUI quasi-endowment totaled \$95.6 million and returned 2.1% as of June 30, 2003, which underperformed the benchmark of 2.5% for the quarter.

Wilshire reported that, for the quarter, Alliance Bernstein outperformed their benchmarks; Invesco and Vanguard outperformed or were comparable to their benchmarks; and Seneca, LSV Asset Management, and Reams underperformed their benchmarks.

Investment Issues Corporate bonds held by Reams Asset Management, five for the University of Iowa and two for Iowa State University, were downgraded below investment grade for the quarter ended June 30, 2003. Reams continues to hold the bonds in accordance with established guidelines.

The internal auditors verified that remaining investment purchases and holdings for the quarter ended June 30, 2003, were in compliance with respective Board and institutional investment policies.

Iowa Mutual
Medical Insurance
Company

The Board is requested to authorize the University of Iowa to assist with the formation of a captive mutual insurance company for the purpose of providing medical liability insurance, within defined limits, for the participants of the Carver College of Medicine Faculty Practice Plan.

The Board is also requested to authorize the University of Iowa to purchase surplus notes from the mutual company to be formed in the amount of \$20 million to meet the statutorily required insurance surplus.

On January 1, 2003, the Faculty Practice Plan (FPP) at the University of Iowa Carver College of Medicine (CCOM) lost its commercial medical liability insurance. In March of this year, the Board authorized the University of Iowa to formalize a self-insurance program to protect the state and members of the FPP from liability claims, within defined limits, resulting from the operation of the Plan. The Board also delegated the Board's Executive Director authority to review and approve the self-insurance program, based upon the counsel and advice of the Board and the Board president, prior to implementation.

The University created a Task Force with representatives from the CCOM FPP, the Office of the General Counsel, the University Risk Manager, Board leadership, Board Office personnel, and other relevant parties, that considered alternate methods of liability coverage for the FPP.

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.

Six follow-up reports are presented this month: three from University of Iowa – University Operations, two from University of Iowa – Hospital Operations, and one from Iowa State University; all are closed. The Status of Internal Audit identifies 24 internal audit reports, 18 of which require follow-up.

 Approved: 
Jean A. Friedrich Gregory S. Nichols