

**MEMORANDUM**

**To:** Board of Regents  
**From:** Board Office  
**Subject:** Report of the Banking Committee  
**Date:** September 5, 2000

**Recommended Actions:**

1. Adopt the following:

A Resolution authorizing and approving the Execution and Delivery of the Ground Lease, the Amended Ground Lease, the Lease, the 2000 Amendments to Lease, the Indenture, the Supplemental Indenture, the Bond Purchase Agreements, the Tax Exemption Certificate, and the Continuing Disclosure Certificate and Authorizing and Providing for the Issuance of University of Iowa Facility Corporation (Medical Education and Biomedical Research Facility Project) \$22,250,000 Revenue Bonds Series 2000 and \$5,750,000 Revenue Bonds, Series 2000A, and Providing for the Payment Thereof.

**(ROLL CALL VOTE)**

2. Adopt the following:

A Resolution providing for the sale and award of \$10,000,000 Athletic Facilities Revenue Bonds, Series S.U.I. 2000, and approving and authorizing the agreement of such sale and award.

A Resolution authorizing and providing for the issuance and securing the payment of \$10,000,000 Athletic Facilities Revenue Bonds, Series S.U.I. 2000, for the purpose of defraying costs of constructing and equipping athletic and recreational buildings, athletic fields, grounds and related facilities located on the campus of The State University of Iowa, funding a Reserve Fund and paying the costs of issuance.

**(ROLL CALL VOTE)**

3. Receive the report of the Banking Committee.

**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 September 13, 2000, the Banking Committee is scheduled to consider the approval of the minutes from the May 2000 Banking Committee meeting; a Resolution Authorizing and Providing for the Issuance of \$22,250,000 Series 2000 and \$5,750,000 Series 2000A University of Iowa Facilities Corporation Revenue Bonds (Medical Education and Biomedical Research Facility), and Resolutions for the Sale and Award of \$10,000,000 Athletic Facilities Revenue Bonds, Series S.U.I. 2000.

The Banking Committee is also scheduled to receive a presentation by State Auditor Richard Johnson, an updated report on the ISU Memorial Union Refunding of Promissory Note, a report on the Costs of Bond Issuances, the Investment and Cash Management Report for Fiscal Year Ended June 30, 2000, an update on the Change in Ownership Interests of Sanford C. Bernstein, an external audit report on the Tri-State Graduate Center, and an internal audit report for the University of Iowa.

**Background:**

**Approve Minutes of the July 19, 2000, Banking Committee Meeting**

The minutes of the meeting will be included with the materials for the Banking Committee meeting.

**Presentation by State Auditor Richard D. Johnson**

Richard C. Johnson, CPA, has been the State Auditor of Iowa since 1979. His current term expires in 2002. Auditor Johnson is scheduled to meet with the Banking Committee during its September meeting.

Iowa Code Chapter 11 requires the State Auditor's Office to audit annually the Regent institutions and Board Office. The State Auditor releases separate annual independent auditor's report on financial statements of each Regent institution.

The State Auditor has made several presentations to the Banking Committee on various issues with the most recent being in February 1999. At that meeting, the topics covered included audit plans; positive audit projects at the Regent institutions; relationships between state auditors and internal auditors, institutional officials and the Board Office; and audit billings.

**Resolution Authorizing and Providing for the Issuance of \$22,250,000 Series 2000 and \$5,750,000 Series 2000A University of Iowa Facilities Corporation Revenue Bonds (Medical Education and Biomedical Research Facility)**

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.

At its July 2000 meeting, the Board adopted a resolution authorizing the Executive Director to take action needed for the issuance of not more than \$29,750,000 University of Iowa Facilities Corporation Revenue Bonds for the University of Iowa College of Medicine Medical Education and Biomedical Research Facility (MEBRF) project. The issue size has now been finalized and totals \$28,000,000, which includes \$22,250,000 in Series 2000 bonds and \$5,750,000 in Series 2000A bonds.

In August 1998, the Facilities Corporation sold \$22,250,000 in bonds for MEBRF. When these bonds were sold, it was noted that additional bonds would be sold in 2000 to continue financing for the project.

The last maturity of the bonds to be issued will be June 1, 2020. Debt service of approximately \$2.2 million annually will be paid from lease rentals, which will be paid by the Board to the Facilities Corporation under the terms of the lease.

The bond sale is scheduled for September 14, 2000. The bid opening will occur at 9:00 a.m. The Executive Committee of the Board of Directors of the Corporation is expected to approve the sale and terms of the bonds based on the best bid at a meeting scheduled for that date. The Board of Regents, at its regularly scheduled meeting, will be asked to approve the above resolution.

**Resolution for the Sale and Award of \$10,000,000 Athletic Facilities Revenue Bonds, Series S.U.I. 2000**

At its July 2000 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds. The bonds would be sold to finance a portion of the Hawkeye Athletic / Recreation Facilities Complex which consists, in part, of the Roy G. Karro Athletics Hall of Fame, soccer facilities, site work, and parking.

The bonds will be issued for a period of 21 years, with debt service of approximately \$830,000 annually to be paid from net rents, profits and income from the operation of the system of athletic and recreational buildings and facilities, and tuition designated as building fees for the project.

## Updated Report - ISU Memorial Union Refunding of Promissory Note

The Iowa State Memorial Union is a separate, non-profit corporation established in 1922. Since the Memorial Union Corporation issues notes on behalf of the University, the Board of Regents, as the benefited public body, must approve the terms of the financing.

In 1995, the Board authorized the Union to issue and sell mortgage notes on behalf of the State of Iowa. The financing provided for annual principal payments beginning December 1, 1996, with a balloon payment due December 1, 2000.

With concurrence from the University, the Union proposes to refinance a 1995 note with a remaining balance of \$5.5 million for an additional 5-year period under similar terms and conditions as the note issued in 1995. A new balloon payment would be due December 1, 2005. At its July 2000 meeting, the Board adopted a resolution authorizing the Iowa State Memorial Union to begin initial proceedings to issue the 2000 Note.

The Board's bond counsel and financial advisor have been working on the refunding and will be prepared to provide an oral report to the Banking Committee at its September meeting.

### Costs of Bond Issuances

The Banking Committee has requested reports identifying the costs associated with each bond issuance. While the costs to date for FY 2000 were included as an attachment to the June 2000 Banking Committee item on the renewal of contracts with the Board's bond counsel and financial advisor, the last formal report on this topic in April 2000 included issuance costs for the ISU Dormitory Revenue Bonds sold in January 2000 and the SUI Telecommunications Facilities Revenue Bonds sold in February 2000.

This month's report includes the estimated and actual issuance costs for the SUI Dormitory Revenue Bonds (sold in April 2000) and the UNI Dormitory Revenue Bonds (sold in May 2000) as follows:

<u>Bond Issue</u>	<u>Estimated Costs</u>	<u>Actual Costs</u>	<u>Actual Costs as % of Bond Issue \$</u>
SUI Dormitory Bonds	\$65,000	\$60,657.36	.38%
UNI Dormitory Bonds	63,000	59,784.52	.43%

## **Investment and Cash Management Report for Fiscal Year Ended June 30, 2000**

The Regent institutions maintain two investment portfolios — operating and endowment/quasi-endowment. Both portfolios include restricted and unrestricted funds.

As of June 30, 2000, total Regent combined operating and endowment portfolios exceeded \$1 billion for the second quarter in a row.

The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$823.3 million. The university operating investment portfolios performed in line with the comparable industry standards.

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment portfolio, which totals \$255.0 million. The combined investment manager returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios are 16.1% and 13.9%, respectively, for the year. The blended asset allocation benchmark posted returns of 7.4% for the year.

Wilshire reported that all three endowment investment managers outperformed their respective benchmarks.

University internal auditors verified that investment purchases of the institutional portfolios and holdings during the quarter ended June 30, 2000 were in compliance with respective Board and institutional investment policies.

### **Sanford C. Bernstein - Change in Ownership Interests**

In July, the Banking Committee received a preliminary report from Wilshire Associates, the Board's investment advisor, on the acquisition of Sanford C. Bernstein by Alliance Capital. Representatives from Sanford Bernstein also made a presentation to the Banking Committee and answered questions.

Sanford C. Bernstein is the international fund manager responsible for approximately 4.8% of the Board's institutional endowment portfolios. The Regent institutions, as of June 30, 2000, had international assets totaling \$12.2 million that are managed by Sanford Bernstein (see B.C. 7 this month).

Wilshire Associates conducted a comprehensive review and analysis of the announced acquisition of Sanford Bernstein by Alliance Capital and issued a report for its clients. The following are Wilshire's conclusions and recommendations:

- With respect to domestic and international equity, Wilshire recommends retention of any existing Alliance and Sanford Bernstein accounts and should continue to be included in manager searches.
- With respect to fixed income, Wilshire recommends due diligence be heightened substantially on existing fixed income accounts and that both firms be excluded from manager searches due to uncertainty of integration of products.
- Wilshire will re-rate all Alliance and Bernstein products following the close of the acquisition in the fourth quarter of calendar 2000.

### **External Audit Report**

Dierking, Lockie, & Associates, PC of Sioux City, Iowa, conducted the Siouxland Interstate Metropolitan Planning Council (Simpco) audit report for the fiscal year ended June 30, 1999, which includes the Tri-State Graduate Center.

The audit report is released on an annual basis and is conducted in accordance with generally accepted auditing standards, Iowa Code Chapter 11, and the standards applicable to financial audits contained in government auditing standards.

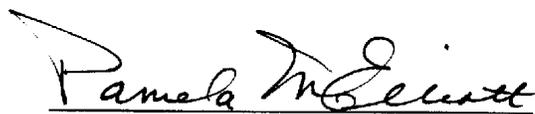
The auditors concluded that the general purpose financial statements were presented fairly in all material respects. There were no reported findings.

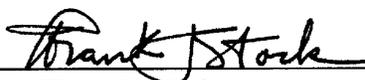
## Internal Audit Reports

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. When corrective action has been satisfactorily completed, the audits are closed.

Seven completed internal audit reports are presented this month, one new and six follow-up. The Banking Committee docket memorandum provides summaries of each report and tables outlining the auditor recommendations, management responses, auditor responses, and auditor follow-up. The reports indicate that corrective action is being taken or has already been completed in a satisfactory manner.

The *Status of Internal Audit Follow-Up* table identified 37 internal audits, of which 30 still require follow-up. Internal auditors at the University of Iowa closed three audits; internal auditors at the University of Iowa Hospitals and Clinics closed one audit; and internal auditors at Iowa State University closed two audits.

  
Pamela M. Elliott

Approved:   
Frank J. Stork