

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: September 9, 2002

Recommended Actions:

SUI Facilities
Corporation Bonds

1. Adopt the following resolutions:

Adopt A Resolution Authorizing and Approving the Execution and Delivery of the Ground Lease, the Lease, the Indenture, the Bond Purchase Agreement, the Tax Exemption Certificate and the Continuing Disclosure Certificate, and Authorizing and Providing for the Issuance of University of Iowa Facilities Corporation (Roy J. and Lucille A. Carver Biomedical Research Building Project) \$17,000,000 Revenue Bonds, Series 2002A, and \$8,000,000 Revenue Bonds, Series 2002B and Providing for the Payment Thereof.

(ROLL CALL VOTE)

UNI Dormitory
Revenue Refunding
Bonds

2. Adopt the following resolution subject to establishment of the revised bond issuance schedule as detailed in the memorandum:

Adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$9,800,000 Dormitory Revenue Refunding Bonds, Series U.N.I. 2002.

(ROLL CALL VOTE)

3. Approve the following:
 - Modification of Institutional Banking Relationships;
 - Modification of Institutional Brokerage Services; and
 - Selection of New Fund Manager.
 4. Accept the remainder of the report of the Banking Committee.
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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 19, 2002, the Banking Committee is scheduled to consider approval of:

- The minutes from the July 2002 Banking Committee meeting;
- Resolutions for the Sale and Award of up to \$25,000,000 University of Iowa Facilities Corporation Revenue Bonds (Roy J. and Lucille A. Carver Biomedical Building), Series 2002A;
- Revised Bond Issuance Schedule – October and November 2002;
- Preliminary Resolution for the Sale of up to \$9,800,000 Dormitory Revenue Refunding Bonds, Series UNI 2002;
- Modification of Institutional Banking Relationships;
- Modification of Institutional Brokerage Services; and
- Selection of New Fund Manager.

Reports The Banking Committee is scheduled to receive reports on:

- Costs of Bond Issuance
- Annual Investment and Cash Management Report
- Internal Audit Reports – University of Iowa

Background and Analysis:

Minutes The minutes of the June 2002 Banking Committee meeting are included with the Banking Committee materials.

SUI Facilities
Corporation Bonds The Banking Committee is requested to recommend that the Board adopt a resolution authorizing and approving various lease documents, indenture, a bond purchase agreement and certificates related to the sale of two series of University of Iowa Facilities Corporation Revenue Bonds for the University of Iowa Carver College of Medicine Roy J. and Lucille A. Carver Biomedical Research Building (CBRB).

Two series of bonds would be issued; the Series 2002A bonds in the amount of \$17,000,000 would be single tax-exempt (exempt from federal, but not state taxes) and the Series 2002B bonds in the amount of \$8,000,000 would be taxable.

Purpose The bonds would be sold to provide a portion of the funds needed to construct the Roy J. and Lucille A. Carver Biomedical Research Building.

Facilities Corporation 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.

IRS Service Rulings Although the bonds are being issued by the Corporation, they are deemed by Internal Revenue Service rulings to be issued "on behalf" of the Board of Regents and the State of Iowa. The Board of Regents must therefore approve the sale and terms of the bonds.

Bond Structure The bond structure for the University of Iowa Facilities Corporation bond issue differs from the structure used for Board of Regents bonds.

- The Corporation will issue the debt and lease the facility to the Board for use by the University during the terms of the bonds.
- Upon retirement of the bonds, the facility will be conveyed to the University.

Bonds The last maturity of the bonds to be issued would be June 1, 2028. Annual debt service for the two series of bonds of approximately \$1,750,000 would be paid from lease rentals, which will be paid by the University to the Facilities Corporation under the terms of the lease.

Revised Bond Issuance Schedule At its meeting in November 2001, the Board established a bond issuance schedule for calendar year 2002. Since that time, the University of Iowa has requested a delay until calendar year 2003 in the bond sales scheduled for October and November.

It is proposed that a revised schedule for the remainder of this calendar year (October and November) be adopted. The revised schedule includes a refunding of UNI Dormitory Bonds in October and the sale of University of Iowa Hospital Revenue Bonds in November.

UNI Dormitory
Revenue Refunding
Bonds

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 \$9,800,000 Dormitory Revenue Refunding Bonds, Series U.N.I. 2002.

As discussed previously with the Banking Committee, interest rates are historically low and the yield curve 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 Board's financial advisor (Springsted), bond counsel (Ahlers Law Firm) and the University recommend proceeding with the refunding of UNI Dormitory Revenue Bonds.

The 1992 Dormitory bonds, with an outstanding principal of \$7,560,000, became callable on July 1, 2002 and can be called on any interest payment date after that time. The next interest payment date is January 1, 2003. The outstanding maturities of the bonds would be called and principal payments made on that date.

The refunding of 1992 bonds makes possible the refunding of the outstanding Series 1964 and Series 1967-C Dormitory Revenue Bonds, which are outstanding in the total amount of \$1,850,000. (A refunding of only these two series would not be cost effective.)

Present value savings for the refundings is estimated at more than \$800,000.

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 June 2002 included issuance costs for the March 2002 sale of the University of Northern Iowa \$12,755,000 Student Union Revenue Bonds.

This month's report includes the issuance costs for the April 2002 sale of Academic Building Revenue Refunding Bonds for the University of Iowa and the University of Northern Iowa, the May 2002 sale of Parking System Revenue Bonds for Iowa State University, and the June 2002 sale of University of Iowa Facilities Corporation bonds for the Medical Education and Biomedical Research Facility – Building A.

The costs of issuance for each of the bond issues are summarized on the following table.

<u>Bond Issue</u>	<u>Costs of Issuance</u>
Academic Building Revenue Refunding Bonds, Series S.U.I. 2002	\$52,145.32
Academic Building Revenue Refunding Bonds, Series U.N.I. 2002	30,499.94
Parking System Revenue Bonds, Series I.S.U. 2002	42,684.78
Univ. of Iowa Facilities Corporation, Series 2002 (Medical Education & Biomedical Research – Building A)	43,225.49

Selection of New Fund Manager

At the January 2002 meeting, the Board approved Barclays Global Investors (BGI) as its new large cap index fund manager.

Subsequent to that meeting, Ahlers Law Firm concluded that the commingled fund agreement (the “Agreement”) for the BGI index fund is a “public funds custodial agreement” as defined by Section 12B.10C of the Iowa Code.

Therefore, the language of the Agreement must comply with the statute in order to be a permissible investment for the endowment funds overseen by the Board of Regents. Because the BGI Agreement covers hundreds of institutional investors, BGI is unable to modify it to include the language required by the Iowa Code.

Wilshire Recommendation

Since the Board’s investment policy calls for a large cap index fund manager to provide diversification, Wilshire, the Board’s investment advisor, recommends that an alternative large cap index manager be used for the Regent institutions to invest the demutualization proceeds and endowment funds.

Wilshire recommends that the Board use the Vanguard 500 Index mutual fund. This fund is registered with the SEC as an open-ended investment company and therefore is a permissible investment under the Iowa Code.

Originally, Wilshire recommended the BGI commingled fund primarily because, at 5 basis points, it had the most competitive fees. Since the time of the original recommendation, Vanguard has lowered its index fee from 8 basis points to 5 basis points. Therefore, fees are no longer an issue.

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

Institutional Investment Portfolios
Market Value (Thousands of Dollars)
As of June 30, 2002

	Operating	Endowment/ Quasi-Endowment
University of Iowa ¹	\$554,069	\$220,253 ²
Iowa State University	267,159	82,444 ³
University of Northern Iowa	61,677	-
Iowa School for the Deaf	2,559	-
Iowa Braille & Sight Saving School	526	-
Total	\$885,990	\$302,697

¹ Includes UIHC.

² Includes UNI.
Includes ISD and IBSSS.

As of June 30, 2002, total Regent combined operating and endowment portfolios was nearly \$1.2 billion.

Operating The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$886.0 million. The university operating portfolios performed in line with comparable industry standards.

Endowment Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment portfolio, which totaled \$302.7 million. The combined investment managers' returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios were -7.6% and -8.2%, respectively, for the quarter. The blended asset allocation benchmark posted returns of -7.0% for the quarter. Wilshire reported that the five endowment investment managers were close to their respective benchmarks.

Modification of Brokerage Services The Board's investment policy requires that brokerage firms be approved by the Banking Committee and the Board before Regent institutions are permitted to use their services.

Proposed Revisions The current list of approved brokers includes 15 brokerage firms. The universities have reported name changes to three firms and have requested that nine firms be deleted from the list. The revised list would include six brokerage firms.

Name Changes The universities have reported name changes for three of the approved general brokerage services as shown below:

<p><u>From:</u> Dain Bosworth Norwest Investment Services, Inc. Piper Jaffray & Hopwood</p>	<p><u>To:</u> Dain Rauscher Wells Fargo Brokerage Services US Bancorp Piper Jaffray, Inc.</p>
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Proposed Deletions As of September 2002, the universities have no signed agreements with the following nine firms and have requested that the names be deleted from the approved list.

American National Bank
Boatmen's Bank Iowa, N.A.
Dougherty, Dawkins, Strand & Bigelow, Inc.
FBS Investment Services, Inc.
Firststar Bank Cedar Rapids, N.A.
Lehman Brothers
Principal/Eppler, Guerin & Turner, Inc.
Securities Corporation of Iowa
Vining-Sparks IBG, LP

Modification of
Banking
Relationships

Iowa Code §12C.2 requires the Board of Regents to approve financial institutions that serve as depositories.

Regent Policy Manual §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.

Proposed Changes

The proposed changes are as follows:

SUI

The University reported name changes from the Firststar Bank Iowa – Cedar Rapids and the Firststar Bank – Iowa City to the US Bank Iowa – Cedar Rapids and the US Bank – Iowa City.

The University requested that the Firststar Wisconsin bank be deleted. The UIHC lockbox is now posted directly to the US Bank-Iowa City account.

ISU

The University reported a name change from the Firststar Bank – Ames to the US Bank – Ames.

The University requested an arbitration rebate be deleted from Bankers Trust in Des Moines. The University also requested that Bank of America – Des Moines be added as credit card processor.

UNI

The University of Northern Iowa requested that Firststar Bank Iowa – Cedar Falls (DDA Account) and Wells Fargo Bank Iowa – Atlantic (Controlled Disbursement Account) be deleted.

ISD

The school reported a name and location change from the Firststar Bank – Cedar Rapids to the US Bank – Council Bluffs.

IBSSS

The school reported a name change from the Firststar Bank – Cedar Rapids to the US Bank – Cedar Rapids.

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.

The Status of Internal Audit identifies 21 internal audit reports, 11 of which require follow-up. Four new SUI audits and ten follow-up reports are presented this month (page 9), four from the University of Iowa, three from Iowa State University and three from the University of Northern Iowa; all are closed.


Pamela M. Elliott

Approved: 
Gregory S. Nichols