

Contact: Joan Racki

**PRELIMINARY RESOLUTION FOR THE SALE OF UNIVERSITY OF IOWA
RECREATIONAL FACILITIES REVENUE BONDS**

Action Requested: Consider adopting A Resolution authorizing the Executive Director to fix the dates for the sale of up to \$78,000,000 Recreational Facilities Revenue Bonds for The State University of Iowa.

(ROLL CALL VOTE)

Executive Summary: The Board is asked to consider adoption of a resolution authorizing the Executive Director to fix the dates for the sale of University of Iowa Recreational Facilities Revenue Bonds. The bond issuance schedule for calendar year 2007, approved by the Board in November 2006, included the sale of the first of three bond issues for the University's Campus Recreation and Wellness Center (Center) in August 2007.

At its September 2006 meeting, the Board approved the financing plan, schematic design, and project description and budget (\$69,125,000) for the Center which would construct an indoor recreation facility at the southwest corner of Burlington and Madison Streets (directly south of the Library) to improve the University's recreational offerings for students, faculty and staff. The project would support three primary University programs: Student Fitness and Recreation, Aquatics, and Wellness; the primary function of the facility would be to provide "drop-in" individual fitness activities in these three areas. The facility would be staffed and managed by the University's Department of Recreational Services.

The approved financing plan included funding from the proceeds of the sale of 25-year revenue bonds, with annual debt service payments coming from Athletic Department gifts and earnings, contributions from the University for Wellness Program space, and implementation of a new building fee charged to students. The Department of Recreational Services will charge access fees to non-student participants. The following summarizes the proposed funding:

Student Fee Support	\$ 59,375,000	(general recreation & aquatics space)
Athletic Department	9,000,000	(intercollegiate swimming/diving)*
Univ. Wellness Contribution	<u>750,000</u>	(dedicated wellness program space)*
TOTAL	\$ 69,125,000	

*Contributions for Athletics and the University (faculty/staff Wellness program) are based upon the square footage dedicated to these functions and estimated time of usage.

Key provisions of the financing plan are:

1. Issuance of 25-year revenue bonds netting project proceeds of \$69.125 million, plus amounts required to fund fully a debt service reserve and all other issuance costs. (It is anticipated that there would be three bond issues, one each in 2007, 2008 and 2009).
2. Capitalization of a minimal amount of interest expense on the bonds during the project construction period.
3. Contributions by Athletics and the General University (for Wellness) of 100% of their funding commitments beginning in FY 2008 (during the construction phase) and ending in FY 2014. (This approach significantly reduces capitalized interest expense during the construction period and allows for acceleration of principal payments during the early, low interest cost years.)

Based upon schedules prepared by the Board's financial advisor, Springsted, Inc., total annual debt service payments are designed to match available system revenues. For the three bond issues, debt service payments would range from a low of \$1.1 million in FY 2008 to a high of \$6.3 million in 2014. For the remaining years of the bond issues, the annual debt service payments are expected to range from \$4.8 million to \$5.3 million.

Under the revenue proforma developed by the University, the following are the estimated new student fees which would be in effect for FY 2011, the first full year of operation of the facility (new student fees would not be charged until the facility was operational):

<u>New Fees</u>	<u>Approximate Amount per Academic Year</u>
New Building Fee	\$131
New Operation & Maintenance Fee*	56
Student Fee Offset by Eliminating Other Student Charges	<u>32</u>
TOTAL – New Fees	\$219

*The projected cost of O&M for the first full year of operation is \$2.1 million. The student O&M fee would cover the expected proportional costs for Recreational Services. Athletics and University wellness programs will also pay their proportional costs.

The following table summarizes the existing building fees which would be reallocated to the project and the year in which they would become available:

<u>Reallocated Building Fees</u>	<u>Amount per Academic Year</u>
Existing Recreation Building (in 2008)	\$ 5
Iowa Memorial Union Building Fee (in 2009)	26
Hawkeye Campus Building Fee (in 2013)	<u>28</u>
TOTAL – Reallocated Fees	\$59

Additional Information: Under the provision of Iowa Code Chapter 262, the Board is authorized to construct, equip, maintain and operate self-liquidating and revenue producing facilities at the universities; the Board is also authorized to borrow money to construct or improve these facilities.

The sources of repayment are the income and revenues to be derived from the operation or use of the facility and from any fees or charges implemented by the Board to students for whom the facilities are made available.

When the new facility is completed, Recreational Services would discontinue charging students for use of the fitness and work-out facilities on campus. Currently, direct billing to students who buy individual fitness memberships or recreation passes totals approximately \$800,000 per year. A \$32 per year mandatory student fee, beginning in FY 2011, is required to offset this lost income (see summary of new fees). Faculty, staff and the public would be assessed differentially for use of the facility, either on an annual fee basis or “walk-in” fee basis.

The University intends to establish and maintain an improvement fund for the facility to provide a source of capital renewal. The University is also seeking gifts to the Recreation System (including in-kind contributions) and partnerships with private and University constituencies

(e.g. UI Health Care) to assist in creating an operating reserve and source of capital renewal. The University indicates that these sources of revenue will be sufficient to keep the facility in good operating condition throughout the facility's initial 25 years of operation. In addition to these sources, the University also reports that major capital renewal after the initial 20 years of operation could occur through future bond sales backed by student fees.

University recreational facilities have historically been made available to members of the general public. The University intends to continue this tradition. However, it is the University's intent to charge access fees to the public that are in line with like facilities in the community. Special fee arrangements may be developed for high school or college age students not attending the University of Iowa. These concepts will be refined over the next year, but it is expected that any adjustments would have a relatively small impact on the overall financial assessment of the project.

The University estimates that revenue generated from new non-student participants will total approximately \$658,000 in FY 2011. "Fee for service" revenues (including locker rentals, camps, aerobic classes, personal fitness trainers and other similar services where there is a defined out of pocket cost) are estimated to total approximately \$1.3 million.

The size of the 2007 bond issue is estimated to total \$26,000,000 including, based upon current interest rates:

- project costs (estimated at \$23,468,200);
- debt service reserve (estimated at \$2,038,300);
- underwriters discount (estimated at \$390,000) and
- issuance costs (estimated at \$103,500).

Debt service on the 2007 bonds is expected to range from a low of \$1.1 million in FY 2008 to a high of \$2.4 million in FY 2014, with the annual debt service for the remaining term of the bonds ranging from \$1.5 million to \$1.8 million.

A copy of the resolution authorizing the Executive Director to fix the dates for the sale of the bonds, which was prepared by Ahlers & Cooney, P.C. and reviewed by Springsted, Inc. is available from the Board Office.

The resolution includes a provision permitting the Board to receive bids by means of both sealed and electronic communication; the receipt by electronic communication is consistent with the resolution adopted by the Board in November 2001 approving the electronic bidding procedures.