Contact: Joan Racki

PRELIMINARY RESOLUTION FOR THE SALE OF DORMITORY AND ACADEMIC BUILDING REVENUE REFUNDING BONDS

Action Requested: Consider adopting A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to $9,500,000 Dormitory Revenue Refunding Bonds, Series I.S.U. 2006A and for the sale of up to $5,600,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2006.

(ROLL CALL VOTE)

Executive Summary: The Board is asked to consider adoption of a resolution authorizing the Executive Director to fix the date or dates for the sale of up to $9,500,000 Dormitory Revenue Refunding Bonds, Series I.S.U. 2006A and for the sale of up to $5,600,000 Academic Building Revenue Refunding Bonds, Series I.S.U. 2006.

The refundings would be undertaken to reduce interest costs. The present value savings from the two refundings are estimated at $715,000.

The Dormitory Revenue Refunding Bonds would be used to advance refund the 2007 - 2027 maturities of the $9,525,000 Dormitory Revenue Bonds, I.S.U. Series 2000A, which were issued to complete construction of Phase 2 of Hawthorn Court, now known as Frederiksen Court.

The Academic Building Revenue Refunding Bonds would be used to refund the 2007 – 2015 maturities of the $7,100,000 Academic Building Refunding Bonds, Series I.S.U. 1995; these bonds were issued to refund Academic Building Revenue Project Notes issued in 1992. The notes were issued to fund improvements to Gilman Hall and the Swine Nutrition Management Research Center.

Interest on the refunding 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.

The sale of the refunding bonds would be scheduled for the August 2006 Board meeting. The bond issuance schedule approved by the Board in November 2005 included possible refundings in August 2006 depending upon market conditions.

Dormitory Revenue Refunding Bonds

The proposed refunding would be an advance refunding as the refunding would occur more than 90 days prior to the initial call date of July 1, 2010. The proceeds from the sale of the refunding bonds, net of issuance expenses, would be invested in U.S. Treasury Obligations to fund an escrow account which would be used to redeem the 2007 – 2009 maturities as they come due and the 2010 – 2027 maturities on July 1, 2010. The refunding would not extend the maturity of the bonds beyond the last scheduled maturity of the 2000A Series bonds.

Interest rates on the refunding bonds are anticipated to be lower than the interest rates on the refunded bonds for the same years. (Rates on the 2000A Series bonds range from 6.25% in 2007 to 5.8% in 2027.) Springsted, Inc., the Board’s financial advisor, has projected that the refunding would result in a present value savings of approximately $475,000.

The University's Residence System is a self-supporting operation and receives no state appropriations. Debt service on the bonds would continue to paid from the net rents, profits and income of the Residence System.

The "not to exceed" issuance amount of $9,500,000 included in the preliminary resolution represents the maximum amount of the sale to allow for interest rate fluctuations. It is anticipated that the refunding issue will have a principal amount of $9,245,000, including issuance costs estimated at $70,000.

<u>Academic Building Revenue Refunding Bonds</u>

The refunding of the Academic Building Revenue bonds would be a current refunding as the refunding would occur less than 90 days prior to the anticipated call date of October 15, 2006. The 2007 – 2015 maturities of the bonds would be called and principal payments made on the call date. The refunding would not extend the maturity of the bonds beyond the last scheduled maturity of the 1995 Series bonds.

Interest rates on the refunding bonds are anticipated to be lower than the interest rates on the refunded bonds for the same years. (Rates on the 1995 Series bonds range from 5.1% in 2007 to 5.5% in 2015.) Springsted, Inc., the Board's financial advisor, has projected that the refunding would result in a present value savings of approximately $240,000.

The "not to exceed" issuance amount of $5,600,000 included in the preliminary resolution represents the maximum amount of the sale to allow for interest rate fluctuations. It is anticipated that the refunding issue will have a principal amount of $5,420,000, including issuance costs estimated at $46,000.

Debt service payments on Academic Building Revenue Bonds are paid with gross student fees and charges, including tuition. The General Assembly and the Governor have a historic record of supporting the Board's request for tuition replacement appropriations to reimburse the institutions for the funds pledged for debt service payments.

<u>Additional Information</u>: A refunding is the issuance of bonds whose proceeds are used to pay principal, interest and/or call premium, if any, of an existing debt obligation; the old (refunded) debt is replaced with new (refunding) bonds.

A copy of the resolution authorizing the Executive Director to fix the date or 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.