

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: March 4, 2002

Recommended Actions:

1. Adopt the following resolutions, subject to receipt of acceptable bids:

A Resolution providing for the sale and award of \$12,755,000 Student Union Revenue Bonds, Series U.N.I. 2002, and approving and authorizing the agreement of such sale and award.

A Resolution authorizing and providing for the issuance and securing the payment of \$12,755,000 Student Union Revenue Bonds, Series U.N.I. 2002 to pay the costs of constructing additions to, remodeling and refurbishing, equipping and furnishing the J. W. Maucker Student Union, paying costs of issuance and funding a reserve fund.

(ROLL CALL VOTE)

2. Adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$14,800,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2002.

(ROLL CALL VOTE)

3. Adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$5,000,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2002.

(ROLL CALL VOTE)

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

(ROLL CALL VOTE)

5. Consider Iowa State University's request to purchase a scoreboard and video display system for Jack Trice Stadium, utilizing master lease financing in the amount of \$1,000,000

6. Approve continuation of the Iowa State University College of Design computer lease program to students, subject to submission of financing plans.

7. Accept the Report of the Banking Committee.
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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 March 13, 2002, the Banking Committee is scheduled to consider approval of:

- The minutes from the January 2002 Banking Committee meeting;
- Resolutions for the Sale of \$12,755,000 Student Union Revenue Bonds, Series U.N.I. 2002;
- Preliminary Resolution for Sale of up to \$14,800,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2002;
- Preliminary Resolution for Sale of up to \$5,000,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2002;
- Reimbursement Resolution, Medical Education Building – Renovate for Physical Therapy (SUI);
- Purchase and Master Lease Financing – Scoreboard and Video Display System, Jack Trice Stadium; and
- ISU College of Design Computer Lease Program.

The Banking Committee is scheduled to receive reports on:

- Investment and Cash Management Reports for the Quarter Ending December 31, 2001;
 - Performance Evaluation of External Investment Fund Managers;
 - Cost of Bond Issuance;
 - External Audit Report – UIHC;
 - Revenue Bond and Note Funds (ISU); and
 - Internal Audit Reports (ISU).
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Background:

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

Quarterly Investment & Cash Management Report The Regent institutions maintain two investment portfolios — operating and endowment/quasi-endowment. Both portfolios include restricted and unrestricted funds. As of December 31, 2001, total Regent combined operating and endowment portfolios exceeded \$1.1 billion.

The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$825.2 million. The university operating investment portfolios performed in line with comparable industry standards.

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment portfolio, which totals \$319.2 million. The combined investment managers' returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios were -5.9% and -5.7%, respectively, for the year. The blended asset allocation benchmark posted returns of -6.2% for the year.

The quarterly returns were 8.0% and 7.5% respectively, with the benchmark for the quarter at 7.2%. Wilshire reported that the three endowment investment managers were close to their respective benchmarks.

University internal auditors verified that investment purchases and holdings of the institutional portfolios during the quarter ended December 31, 2001, were in compliance with respective Board and institutional investment policies.

External Manager Performance Evaluation The Board employs an investment advisor and several money managers to guide its policy of active investment management for institutional funds, as detailed in the Regent Policy Manual.

Wilshire Associates has been the investment advisor to the Board and its institutions since May 1996. The Board's principal endowment fund managers include Invesco Capital Management, Seneca Capital Management, Alliance Bernstein & Co., Inc., and Reams Asset Management. BlackRock is the only external fund manager that invests some of the institutional operating funds.

The Board's investment policy stipulates that the external investment managers for the institutional portfolios shall meet with the Banking Committee, Board Office, and institutional representatives annually to review the investment outlook, structure of their portfolios, and past results.

The policy provides that the Board's investment advisor present annually a comprehensive evaluation of the performance of the Board's external fund managers.

Mark Brubaker of Wilshire Associates will review the performance of the external fund managers.

Representatives from each of the external investment fund managers will make presentations at the Banking Committee meeting.

**UNI Student Union
Revenue Bonds**

**Resolutions for the Sale of \$12,755,000 Student Union Revenue Bonds,
Series U.N.I. 2002**

The Banking Committee is requested to recommend that the Board adopt two resolutions related to the sale and award and issuance of \$12,755,000 University of Northern Iowa Student Union Revenue Bonds, Series U.N.I. 2002.

At its January 2002 meeting, the Board authorized the Executive Director to fix the date(s) for the sale of the bonds, which would be sold to finance, in part, additions to and renovations of the Maucker Union.

Principal on the bonds would be repaid over a period of 20 years, with debt service of approximately \$1,017,000 annually to be paid from mandatory Student Union fees and the net rents, profits and income of the Student Union.

**SUI Academic
Building Revenue
Refunding Bonds**

**Preliminary Resolution for Sale of up to \$14,800,000 Academic Building
Revenue Refunding Bonds, Series S.U.I. 2002.**

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 \$14,800,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2002.

The calendar year 2002 bond issuance schedule approved by the Board in November 2001 included the refunding in April of the University of Iowa Academic Building Revenue Bonds, Series 1992 should interest rates remain low.

Interest rates have remained low and the Board's financial advisor (Springsted) and bond counsel (Ahlers Law Firm) recommend proceeding with the refunding.

The refunding would be a current refunding, as the call date for the outstanding bonds is July 1, 2002. All outstanding bonds of the 1992 Series would be called and principal payments made on July 1, 2002.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue.

The estimated net and present value savings from the refunding in future tuition replacement appropriations between 2003 and 2015 total \$1.9 million and \$1.4 million, respectively.

**UNI Academic
Building Revenue
Refunding Bonds**

Preliminary Resolution for Sale of up to \$5,000,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2002.

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 \$5,000,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2002.

The calendar year 2002 bond issuance schedule approved by the Board in November 2001 included the May refunding of the University of Northern Iowa Academic Building Revenue Bonds, Series 1991, should interest rates remain low.

Interest rates have remained low and due to the stability in the interest rate market, the Board's financial advisor (Springsted) and bond counsel (Ahlers Law Firm) have recommended proceeding with the refunding in April rather than May.

This refunding can occur without negatively impacting the savings which will result from the University of Iowa Academic Building Revenue Bond Refunding scheduled for April.

The U.N.I. refunding would be a current refunding, as the call date for the outstanding bonds is July 1, 2002. All outstanding bonds of the 1991 Series would be called and principal payments made on July 1, 2002.

Tuition and fee revenues are used for debt service payments on Academic Building Revenue Bonds; a tuition replacement appropriation replaces that university revenue.

The estimated net and present value savings from the refunding in future tuition replacement appropriations between 2003 and 2015 total \$0.6 million and \$0.4 million, respectively.

**Costs of Bond
Issuances**

The Banking Committee has requested reports identifying the costs associated with each bond issuance. The report provided to the Banking Committee in January 2002 included issuance costs for the University of Iowa Dormitory Revenue Bonds sold in October 2001.

This month's report includes the issuance costs for the November 2001 sale of University of Iowa \$4,835,000 Memorial Union Revenue Refunding Bonds, and University of Northern Iowa \$5,625,000 Field House Revenue Bonds.

The Memorial Union Revenue Refunding Bonds were sold to refund the sum of \$5,025,000 in outstanding Memorial Union Revenue Bonds, Series 1986. The costs of issuance total \$32,355.68.

The Field House Revenue Bonds were sold to finance repairs to the structure and roof and to make other improvements to the UNI-Dome. The costs of issuance total \$29,385.65.

At its January 2002 meeting, the Banking Committee requested that actual costs be detailed by fees paid to Springsted and Ahlers, and other expenses. The requested information for calendar years 1999 – 2001 is included in B.C. 7.

SUI
Reimbursement
Resolution

Reimbursement Resolution, Medical Education Building – Renovate for Physical Therapy (SUI).

The University of Iowa requests adoption of a resolution which will permit the University to be reimbursed for the renovation of the Medical Education Building for Physical Therapy project from a future bond issue of the University of Iowa Facilities Corporation or another financing.

The University has previously presented this project to the Board and the Board has approved a number of capital improvement procedural steps, as summarized in B.C. 8.

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.

The Medical Education Building – Renovate for Physical Therapy is under construction, and is scheduled to be completed in the fall of 2002.

Purchase and
Master Lease
Financing

Scoreboard and Video Display System, Jack Trice Stadium.

Iowa State University wishes to purchase a scoreboard and video display system for Jack Trice Stadium from Daktronics Inc and to finance \$1 million of the cost from the Board's master lease agreement.

The University's recommendation to award the bid to Daktronics was based upon the sealed responses received to a Request for Proposals. The University reports that Daktronics was the low, compliant bidder.

The Board Office has been notified by one of the unsuccessful vendors that the firm plans to protest the recommendation to award. The vendor indicated that it plans to review information requested from the University prior to filing the formal protest.

The Board of Regents *Policy Manual* (§8.03G) requires vendor complainants to exhaust administrative remedies at the institutional level before making a written request for review to the Executive Director.

Further information regarding the possible protest will be provided at the meeting.

The existing scoreboard was installed in 1994; the scoreboard was expected to perform over a 10-year period.

Although technology continues to change rapidly, the University believes that the proposed new scoreboard system should have a 10-year useful life.

The University plans to finance a portion of the scoreboard through the master lease agreement with Wells Fargo Brokerage Services, LLC.

Semi-annual lease payments from financing of \$1 million are estimated at approximately \$130,000 based upon a lease term of 10 years and an interest rate of 5.13%. Repayment would be made from corporate sponsorship dollars and dollars received from the Department of Athletics marketing rights contracts.

**ISU Computer
Lease Program**

In July 2001, the Board authorized the College of Design to enter into a financing agreement of up to \$900,000 for the University's purchase of approximately 250 laptop computers for leasing to students in the College of Design. The Banking Committee requested that the University provide an evaluation of the first year of the program prior to receiving authorization to continue financing the program.

The College of Design laptop lease program began in the Fall of 2001 with the purchase of 36 Macintosh machines and 51 Dell laptops. The concept was to provide students with equipment and software to make them successful in the classroom at a price they could afford.

The College's preliminary reports indicate that the program has been successful; the College requests that a second year be approved to study the effects of multiple phases.

**Revenue Bond and
Note Funds**

Bond covenants require independent audits for each fiscal year that bonds are outstanding. Presented this month are eight revenue bond and note fund audit reports for Iowa State University.

The identified revenue bond and note fund audit reports of Iowa State University for the year ended June 30, 2001, indicate that the financial statements of each of the revenue bond and note funds were presented fairly in all material respects.

No findings were reported regarding financial or compliance issues.

**External Audit
Report - UIHC**

KPMG LLP conducted an independent audit on the University of Iowa Hospitals and Clinics (UIHC) accrual basis financial statements for the fiscal years ended June 30, 2001 and 2000. The annual audit is required by revenue bond resolutions and includes operations of the University Hospitals and Clinics, the Psychiatric Hospital, and the UIHC Center for Disabilities and Development.

No significant audit adjustments or findings were reported.

The Board of Regents, in its role as Trustees of the University of Iowa Hospitals and Clinics, will be provided a quarterly report on operations of the UIHC at the March Board meeting. (See docket item SUI B-4.)

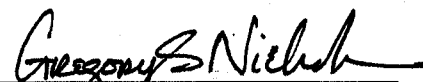
**Internal Audit
Reports**

Completed institutional internal audit reports were 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.

Three new and four follow-up audit reports are presented.

The Status of Internal Audit Follow-Up report reflected the current status of the follow-up audits organized by university. The report identified 17 internal audit reports, 13 of which require follow-up.


Pamela M. Elliott

Approved: 
Gregory S. Nichols