Approved by the Board of Trustees
November 10, 2005

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ROLL CALL

ADVANCE REFUNDING AND/OR OTHER RESTRUCTURING OF ALL OR A PORTION OF OUTSTANDING UIC SOUTH CAMPUS DEVELOPMENT PROJECT BONDS

Action: Approve Actions Leading to the Advance Refunding and/or Other Restructuring of All or a Portion of the Outstanding UIC South Campus Development Project Bonds and Delegate Authority to the Executive Committee to Approve the Advance Refunding and/or Restructuring of the Bonds

Funding: Proceeds of Revenue Bonds and/or Funds Generated Through Restructuring Based on Derivatives

The Vice President for Administration recommends approving the actions leading to the advance refunding and/or other restructuring of all or a portion of the outstanding UIC South Campus Development Project Bonds and the delegation of authority to the Executive Committee of the Board of Trustees of the University of Illinois to approve the advance refunding and/or restructuring of the revenue bonds.

Since the South Campus Development Project was initiated in 1999 two major events have occurred. First, while projected TIF revenues, which provide the major source of repayment on the bonds have increased, there is a mismatch in the timing of the cash flow of these revenues with lower revenues in the next few years and higher revenues for the duration of the TIF. Second, the project budget may need to be increased to complete the project due to scope change and higher costs. Both issues could be solved with the refunding and/or restructuring of the bonds which would facilitate completion of the project and matching of the timing of cash flows.

An advance refunding includes issuing revenue bonds, depositing the proceeds into an escrow account, and investing the funds in U.S. Treasury securities maturing on or before principal and interest payments dates, including the first call date, of outstanding revenue bonds. The new revenue bonds are issued at an amount that the net proceeds, when added to the investment income on the U.S. Treasury securities held in the refunding escrow, will provide the necessary funding to call the outstanding revenue bonds.

A restructuring of outstanding UIC South Campus bonds would change debt service payments in future years and would be accomplished by advance refunding all or a portion of the outstanding bonds and/or entering into a derivatives transaction structured to that end. Restructuring could enable the University to reduce debt service requirements over the next few years, thereby reducing or eliminating the need to support the South Campus revenue bonds from general University revenues and releasing pledged revenues for other project needs or other capital needs of the University, while increasing debt service obligations in future years when available tax increment revenues are projected to be sufficient to pay debt service on the revenue bonds.

There is no guarantee that the present favorable market conditions will continue, and action will only be pursued if the transaction offers considerable financial benefit to the University. If this action were pursued it would have limited impact on the level of outstanding debt; in general, new debt would replace existing debt.

The board previously approved three UIC South Campus Development Project Revenue Bond issues: Series 1999 in the amount of $49.4 million; Series 2000 (Taxable) in the amount of $27.2 million; and, Series 2003 in the amount of $10.0 million (the "South Campus" bonds). A Summary of Financing and Current Status document is Attachment 1 to this board item. All or portions of the Series 1999, 2000 (Taxable), and 2003 bonds are eligible to be advance refunded or restructured. Although refunding selected maturities of these bonds could produce present value savings, recent market conditions do not warrant advance refunding of all the South Campus bonds. The selective refunding of the $49.4 million of Series 1999 bonds would produce approximately $4.0 million in present value savings, or approximately eight percent of the refunded bonds, under recent market conditions. However, if the market yields on certain bond and U.S. Treasury maturities were to change prior to the issuance of the bonds, it may be advantageous to issue additional refunding bonds, to advance refund a larger portion or all of the South Campus bonds.

The principal amount of revenue bonds to be issued to accomplish the advance refunding and restructuring and the net savings derived therefrom will depend upon market conditions at the time of sale. The principal amount of revenue bonds issued could range from $50.0 million up to $90.0 million. It is recommended that any increase in net present value of the debt service associated with the restructuring not exceed five percent of aggregate debt service.

The decision as to the timing and size of the advance refunding issue(s) will rest with the Executive Committee and will be based upon the trade-off between a current opportunity to reduce future debt service versus the reasonable expectation of future opportunities arising from further market improvement. In no event will the aggregate principal amount of the advance refunding or restructuring issue(s) exceed $90.0 million and the final maturity of such issues will not exceed the maximum term allowed by law.

It is recommended that both traditional and synthetic structures that incorporate an interest rate exchange agreement, including variable-to-fixed interest rate swaps and swaption structures, be considered in conjunction with an advance refunding bond issue. Acquisition of a variable-to-fixed rate swap for one outstanding series of South Campus revenue bonds could reduce overall debt service requirements and interest rate risk. Use of a swaption (essentially an option sold to others to require the University to issue revenue bonds to refund one or more series of the outstanding South Campus revenue bonds on a fixed future date) would allow the University to capture the present value of an advance refunding of such bonds without issuing additional bonds at this time. A summary of the UIC Financing Alternatives document is Attachment 2 to this board item. The structure chosen will be within the parameters contained in the board's debt policy adopted in March 2004.

The delegations and authorizations contained in this board action will be effective for one year from the date of this board action and may be renewed by further action of the board.

In order to permit the University to proceed with the transactions described above, including offering, issuance, sale, and delivery of advance refunding revenue bonds and/or entering into one or more derivatives transactions, all as shall be in the University's best interests, the Vice President for Administration recommends that the board take the following actions:

1. Retain Schiff Hardin, LLP, to serve as bond counsel and as swap counsel to the University, to the extent required.

2. Retain Scott Balice Strategies, LLC, to serve as financial advisor and swap advisor to the University, to the extent required.

3. Engage JPMorgan Securities, Inc., to serve as managing underwriter and/or placement agent and/or initial remarketing agent, as required. Additional co-managers and selling group members may be added to assist in the marketing of revenue bonds if revenue bonds are issued.

4. Retain Ungaretti & Harris, LLP, to serve as special counsel to the University.

5. Engage Grant Thornton, LLP, to serve as verification agent for the refunding plan if revenue bonds are issued.

6. Appoint JPMorgan Trust Company, National Association, to serve as Bond Registrar.

7. Delegate to the Executive Committee of the Board of Trustees the authority by resolution to (i) determine to proceed with one or more of the transactions described above, including offering, issuance, sale, and delivery of advance refunding revenue bonds and/or entering into one or more derivatives transactions, and (ii) authorize and direct the Comptroller of the University and other appropriate officers of the University to undertake the actions and make the determinations on behalf of the University that are set forth below if the Executive Committee decides to proceed with such transactions. The Executive Committee's determination in clause (i) shall be based on the best interests of the University taking into account the objectives described above, including the University's need for additional funds to complete the acquisition and construction of the UIC South Campus Development Project, the University's need to restructure the aggregate debt service on the University's outstanding UIC South Campus Development Project Revenue Bonds to match more closely the presently anticipated availability of tax increment revenues generated within the South Campus redevelopment project area that are pledged to pay such bonds, and the University's need to reduce or eliminate the application of general University funds to pay debt service on such bonds.

8. Delegate to the Comptroller the authority to determine the principal amount, final terms and terms of sale of any revenue bonds within the limits expressed in this board action, if the Executive Committee determines that revenue bonds shall be issued and authorizes the

Comptroller to do so. The maximum aggregate principal amount upon issuance of such bonds shall not exceed $90.0 million, the true interest cost of any portion of such bonds that are tax-exempt shall not exceed 6.0 percent and the true interest cost of any portion of such bonds that are taxable shall not exceed 8.5 percent. Compensation to the underwriters and/or placement agents (exclusive of any costs of issuance to be paid by the underwriters and/or placement agents) shall not exceed 2.0 percent of the aggregate principal amount upon issuance of such bonds.

9. Delegate to the Comptroller the authority to designate additional co-managers and selling group members, if the Executive Committee determines that revenue bonds shall be issued and authorizes the Comptroller to do so.

10. Delegate to the Comptroller the authority to negotiate with credit enhancement and liquidity support providers, as needed and deemed economically beneficial in connection with the issuance of University revenue bonds, if the Executive Committee determines that revenue bonds shall be issued and authorizes the Comptroller to do so and following consultation with the managing underwriter and the University's financial advisor.

11. Delegate to the Comptroller the authority to analyze the purchase of bond insurance and to determine if such purchase is economically beneficial and in the best interests of the University, if the Executive Committee determines that revenue bonds shall be issued and authorizes the Comptroller to do so and following consultation with the managing underwriter and the University's financial advisor. If the Comptroller determines that such purchase is economically beneficial and in the best interests of the University, the appropriate officers of the University shall negotiate a commitment with a bond insurance company on terms most advantageous to the University and shall obtain the bond insurance policy. Such insurance, if acquired, would be purchased by the managing underwriter.

12. Delegate to the Comptroller the authority to pursue and obtain a rating or ratings on revenue bonds, if the Executive Committee determines that revenue bonds shall be issued and authorizes the Comptroller to do so.

13. Delegate to the Comptroller the authority to negotiate, approve, execute, and deliver standard ISDA agreements including the Schedule, Credit Support Annex and Confirmation and any related documentation, if the Executive Committee determines that an interest rate exchange agreement transaction is advantageous for the University

and authorizes the Comptroller to do so. An interest rate exchange agreement transaction may be negotiated with affiliates of one or more of the University's pool of senior managing underwriters or with other qualified parties, or may be competitively bid among a limited number of qualified parties, as the Comptroller shall determine is most advantageous financially to the University. The University's financial advisor shall deliver a fairness opinion with respect to any interest rate exchange agreement transaction that is not competitively bid as a condition to closing. Any interest rate exchange agreement transaction shall be within the parameters contained in the board's debt policy adopted in March 2004.

14. Delegate to the appropriate officers of the University the authority to cause to be prepared and to the Comptroller the authority to approve and execute a Preliminary Official Statement and an Official Statement in substantially the same form as the Board's Official Statement dated August 5, 2005, revised and updated as is necessary to reflect the terms of the revenue bonds and related documents and the University's current disclosure information, if the Executive Committee determines that revenue bonds shall be issued and authorizes them to do so.

15. Delegate to the appropriate officers of the University the authority to cause to be prepared and to the Comptroller the authority to approve and execute appropriate documentation including, without limitation, a Supplemental Bond Resolution, Bond Purchase Agreement, and Continuing Disclosure Undertaking in substantially the same form as the Supplemental Bond Resolution, Bond Purchase Agreement, and Continuing Disclosure Undertaking entered into by the board on August 27, 2003, if the Executive Committee determines that revenue bonds shall be issued and authorizes them to do so.

16. Delegate to the appropriate officers of the University the authority to cause to be prepared and to the Comptroller the authority to approve and execute one or more Escrow Agreements in substantially the same form as entered into by the board as of March 31, 2005, to provide for the deposit of obligations of, or fully guaranteed by, the United States of America sufficient, together with the investment income thereon, to provide for the payments of all outstanding revenue bonds to be refunded, if the Executive Committee determines that revenue bonds shall be issued and authorizes them to do so.

17. Ratify and confirm all actions taken or to be taken by the officers of the University and members of the Board of Trustees in connection with the transactions contemplated by this board action.

18. Authorize the Executive Committee, the Comptroller, and other authorized officers of the University to do and perform such other acts and things and to make, execute, and deliver all such other instruments and documents on behalf of the Board of Trustees and the University as may be by them deemed necessary or appropriate including the authorization and distribution of a Preliminary Official Statement and a final Official Statement with respect to the sale of any revenue bonds, and all acts and things whether heretofore or hereafter done or performed by the Executive Committee, the Comptroller, and other authorized officers of the University which are in conformity with the intents and purposes of this board action shall be and the same are hereby, in all respects, ratified, confirmed, and approved.

The board action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The President of the University concurs.