

Board Meeting
September 11, 2008

ROLL CALL

AUXILIARY FACILITIES SYSTEM REVENUE BONDS, SERIES 2008B

Action: Approve Actions Leading to the Issuance of Auxiliary Facilities System Revenue Bonds, Series 2008B, to refund the Variable Rate Demand Auxiliary Facilities System Revenue Bonds, Series 2005B

Funding: Proceeds of the Revenue Bonds

The Vice President/Chief Financial Officer and Comptroller recommends approving the actions leading to the issuance of approximately \$70.0 million of Auxiliary Facilities System Revenue Bonds, Series 2008B (the “Series 2008B Bonds”) to refund the Variable Rate Demand Auxiliary Facilities System Revenue Bonds, Series 2005B (the “Series 2005B Bonds”) and to pay related costs of issuance. He further recommends that both traditional and synthetic structures be considered. The structure chosen will be within the parameters contained in the Board’s Debt Policy adopted in March 2004.

The credit and liquidity crisis that started with problems in the sub-prime mortgage market has expanded to the municipal bond market. The capital of several bond insurance firms has become impaired due to actual and anticipated losses on guarantees made to enhance sub-prime bonds and other higher risk investments. Several of the bond insurance firms have lost, or are at risk of losing, their AAA credit rating.

This is a potential problem for the University's insured Variable Rate Demand Bonds (the "VRDBs"). When the insured rating of the VRDBs falls below AA, the VRDBs are no longer eligible for ownership by most money market funds. With the resulting reduced demand for the insured VRDBs, the interest rate will increase significantly.

The Series 2005B Bonds are insured by FSA which is rated Aaa by Moody's Investors Service (and has been placed on Negative Watch) and AAA by Standard & Poor's (and has a Negative outlook). The interest rate on the Series 2005B Bonds reset at 1.85 percent on August 13, 2008. For comparison, the SIFMA index of VRDBs reset at 1.66 percent on August 13, 2008. The Series 2005B Bonds reset 0.19 percent higher than SIFMA. Historically, on average, the interest rate for the Series 2005B Bonds had been resetting below SIFMA. While we continue to monitor FSA's credit rating and the interest rate resets for the Series 2005B Bonds, we would like to be prepared to refund the Series 2005B Bonds if necessary.

Accordingly, in order to proceed with the preparation of documents and to take other actions needed prior to the issuance of Auxiliary Facilities System Revenue Bonds, Series 2008B, the Vice President/Chief Financial Officer and Comptroller and the University Counsel recommend that the Board take the following actions:

1. Retain Pugh, Jones, Johnson & Quandt, P.C., to serve as bond counsel to the University.
2. Retain Public Financial Management, Inc., to serve as financial advisor and swap advisor to the University, to the extent required.
3. Retain Citigroup Global Markets, 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 the bonds.

4. Retain Katten Muchin Rosenman LLP, to serve as special issuer's counsel and as swap counsel to the University, to the extent required.
5. Appoint The Bank of New York Trust Company, N.A., as Bond Registrar and Trustee.
6. Retain Grant Thornton, LLP, to serve as verification agent for the refunding, to the extent required.
7. Prepare the Preliminary Official Statement and/or the Official Statement.
8. Negotiate for credit enhancement and/or liquidity support, as needed and deemed economically beneficial following consultation with the managing underwriter and the financial advisor.
9. Analyze the economic benefit of the purchase of bond insurance in consultation with the financial advisor and managing underwriter. If such purchase is deemed economically beneficial, the bond insurance would be purchased by the managing underwriter.
10. Take actions to pursue and obtain a credit rating or ratings on the bonds.
11. Prepare the Bond Purchase Agreement.
12. Prepare additional documents including the Supplemental Bond Resolution, the Continuing Disclosure Agreement (if needed) and any related documents.
13. Prepare, to the extent required, standard ISDA agreements including the Master Agreement, Schedule, Credit Support Annex and Confirmation, and any related documents.

The recommended firms are on the approved list of providers maintained by the University. The managing underwriter also will be instructed to select its counsel from the University's approved list. Prior to the sale and delivery of the Series 2008B bonds, the Board will be asked to approve the substantially final form of the above referenced documents and ratify and confirm all actions taken or to be taken by the officers and members of the Board in connection with such sale and delivery.

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.

Funding will be available from the proceeds of the Series 2008B bonds.

The President of the University concurs.