Approved by the Board of Trustees
April 11, 2006

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ROLL CALL

REFUNDING AND/OR RESTRUCTURING ALL OR A PORTION OF THE OUTSTANDING HEALTH SERVICES FACILITIES SYSTEM REVENUE BONDS

Action: Approve Actions Leading to the Refunding and/or Restructuring of All or a Portion of the Outstanding Health Services Facilities System Revenue Bonds

Funding: Proceeds of the Revenue Bonds

The Vice President for Administration recommends approving the actions leading to the refunding and/or restructuring of all or a portion of the Health Services Facilities System Revenue (the "HSFS") Bonds. Outstanding bonds remain on two Series of HSFS Revenue Bond issues: fixed-rate Series 1997A in the amount of $41.7 million; and, variable-rate Series 1997B in the amount of $21.5 million. These bonds were issued for the construction of the Outpatient Care Center in Chicago. The remaining Series 1997A bonds ($41.7 million) are eligible to be advance refunded which would produce approximately $2.8 million in present value savings, or approximately seven percent of the refunded bonds, in recent market conditions.

The Board may also consider taking advantage of the current low interest rate environment by fixing the interest rate on the remaining $21.5 million of the variable rate Series 1997B bonds. With interest rates at relatively low levels and the municipal yield curve relatively flat, the incremental cost of converting variable rate bonds to fixed rate bonds is relatively small and would preserve the HSFS's capacity to issue variable rate bonds in the future, when short-term interest rates may be materially lower than long-term interest rates. The interest rate could be fixed by converting the Series 1997B bonds to a fixed rate under the current bond documents; or, by layering a floating-to-fixed interest rate swap on the Series 1997B bonds. Alternatively, traditional fixed rate bonds could be issued to refund the Series 1997B bonds.

There is no guarantee that the present favorable market conditions will continue, and action(s) will only be taken if they offer considerable financial benefit to the University. If pursued, they would have limited impact on the level of outstanding debt; in general, new debt would replace existing debt.

It is recommended that the Board approve the issuance of bonds in the approximate amount of $43.0 million to refund the Series 1997A bonds if either (a) the refunding savings reach three percent, in aggregate, of the principal amount of the refunded bonds and/or (b) savings on any particular maturity exceeds one percent of the bonds maturing in less than five years; and, the Comptroller deems such refunding to be economically beneficial following consultation with the financial advisor and managing underwriter.

It is also recommended that both traditional and synthetic structures, including variable-to-fixed interest rate and forward starting swap structures, be considered for the refunding and/or restructuring of the Series 1997A and 1997B bonds. The structure chosen will be within the parameters contained in the Board's Debt Policy adopted in March 2004.

Accordingly, in order to proceed with the preparation of documents and to take other actions needed prior to the issuance of bonds to refund and/or restructure all or a portion of the outstanding HSFS Revenue Bonds, the Vice President for Administration and the University Counsel recommend that the University:

1. Retain Katten Muchin Rosenman LLP to serve as bond counsel to the University.

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

3. Engage Goldman, Sachs & Co. 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 Freeborn & Peters LLP to serve as special issuer's counsel and as swap counsel to the University, to the extent required.

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. Prepare the Preliminary 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 revenue bonds.

11. Prepare additional documents including a Supplemental Bond Resolution, Bond Purchase Agreement, Continuing Disclosure Agreement and Escrow Agreement and any related documents.

12. Prepare, to the extent required, standard ISDA agreements including the Master Agreement, Schedule, Credit Support Annex and Confirmation and any related documents.

Prior to the sale and delivery of the refunding and/or restructuring HSFS Revenue 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.

The President of the University concurs.