Approved by the Board of Trustees,
July 14, 2005

Board Meeting
July 14, 2005

ROLL CALL

ISSUE VARIABLE RATE DEMAND AUXILIARY FACILITIES SYSTEM REVENUE BONDS, SERIES 2005B

Action: Approve Issuance of Variable Rate Demand Auxiliary Facilities System Revenue Bonds, Series 2005B

Funding: Proceeds of the Revenue Bonds

The Board of Trustees of the University of Illinois ("Board"), at its meetings on January 20, 2005, and May 19, 2005, authorized a number of actions leading toward the issuance of the University of Illinois Variable Rate Demand Auxiliary Facilities System Revenue Bonds, Series 2005B ("Bonds") to finance a portion of the following projects: UIC Campus Recreation Renovation and Expansion, UIC South Campus Mixed Use Development, UIUC Campus Recreation Renovation and Expansion, UIC Student Residence Hall Renovation, UIC Student Center East Illinois Room Renovation, UIC South Campus Retail Facilities, and UIC West Side HVAC Modifications. Additionally, the Board approved the UIS Campus Recreation and Fitness Facility project in the amount of $13.1 million at its meeting of June 17, 2004.

On September 20, 1984, the Board adopted a resolution ("Original Resolution" and, as supplemented and amended, "Bond Resolution") providing for the issuance of revenue bonds under the provisions of the University of Illinois Revenue Bond Financing Act for Auxiliary Facilities, 110 ILCS 405/1 *et seq*. It is now requested that the Board adopt a resolution further supplementing the Bond Resolution ("Twelfth Supplemental Resolution") providing for the issuance of the Bonds in an original principal amount not to exceed $72.0 million with a final maturity no later than April 1, 2035, to fund approximately $65.0 million of the projects, capitalized interest, and the related issuance costs.

The Bonds will be issued as variable rate demand bonds. Initially, the interest rate on the Bonds will reset on a weekly basis. At the option of the Board, the Bonds may be converted to bear interest at a daily rate, an auction rate, bond interest term rates (from one to 180 days) or a long-term rate (from 181 days to maturity of the Bonds), and the interest rate will be reset accordingly. Because the owners of the Bonds hold demand Bonds, they may tender their Bonds for repurchase, at which point Citigroup Global Markets Inc., as the remarketing agent for the Bonds ("Remarketing Agent"), will use its best efforts to remarket the Bonds to new owners. Consequently, the Bonds will be supported by a liquidity facility. The liquidity facility for the Bonds will be the Standby Bond Purchase Agreement ("Liquidity Facility") provided by State Street Bank and Trust Company ("Liquidity Facility Provider"). Proceeds of the Liquidity Facility will be available to pay the purchase price of Bonds that are not remarketed. The amount of the Liquidity Facility is based upon the principal amount of the Bonds, plus interest thereon at the rate of 12 percent per annum for 35 days. The legal maximum interest rate currently applicable to the Bonds is the greater of 9 percent per annum or 125 percent of the 20 G.O. Bonds Index of average municipal bond yields as published in ***The Bond Buyer***. This maximum rate will change when the interest rate on the Bonds resets.[1] In

[1]For example, as of June 30, 2005, 125 percent of such index is 5.3 percent.

addition, the Modal Agreement (described below) further provides that the interest rate on the Bonds (except when they are held by the Liquidity Facility Provider) will never exceed 12 percent per annum.

If tendered Bonds are not remarketed, the Liquidity Facility Provider will purchase such unremarketed Bonds, and the interest rate on such Bonds, when held by the Liquidity Facility Provider, will be the Federal Funds Rate plus 1.00 percent (except that upon the creation of a term loan or upon a default, the interest rate will be increased as set forth in the Liquidity Facility), but the interest rate paid to the Liquidity Facility Provider will not exceed the lesser of 25 percent and the maximum rate permitted by law.[2]

The principal of the Bonds will amortize over their estimated 30 year term, resulting in a range of annual payments estimated to be approximately $2.5 million to $12.5 million over the life of the Bonds. While the Bonds bear interest at a weekly or daily rate, the Board has the flexibility to redeem or refund the Bonds at any time before they mature.

The Bonds are payable only from and secured only by the net revenues of the Auxiliary Facilities System, student tuition and fees (subject to prior payment of operating and maintenance expenses of the Auxiliary Facilities System, but only to the extent necessary) and the Bond and Interest Sinking Fund Account, created by the Bond Resolution.

[2]A higher legal maximum interest rate--the greater of 13 ½ percent per annum or 200 percent of the 20 G.O. Bonds Index--may be applicable if the Bonds are not tax-exempt when held by the Liquidity Facility Provider.

Participants in the financing include:

- Underwriter/Remarketing Agent: Citigroup Global Markets Inc.
- Financial Advisor: John S. Vincent & Company
- Bond Counsel: Chapman and Cutler LLP, Chicago, Illinois
- Special Issuer's Counsel: Mayer, Brown, Rowe & Maw LLP, Chicago, Illinois
- Underwriter's Counsel: Foley & Lardner LLP, Chicago, Illinois
- Liquidity Facility Provider: State Street Bank and Trust Company
- Counsel to Liquidity Facility Provider: Winston & Strawn LLP
- Bond Registrar and Tender Agent: J. P. Morgan Trust Company, National Association
- Bond Insurer: Financial Security Assurance Inc.

All legal matters incidental to the transaction will be approved by one or more of the counsel referred to above, in consultation with University Counsel and University administrative staff. Special Issuer's Counsel will give a Section 10(b)(5) opinion to the Board with respect to the Final Official Statement for the Bonds. A table of the estimated costs of issuance for the transaction is attached as Exhibit A.

The Vice President for Administration recommends the Board of Trustees:

1. Adopt the Twelfth Supplemental Resolution. The Resolution provides for the issuance of additional revenue bonds, designated "University of Illinois Variable Rate Demand Auxiliary Facilities System Revenue Bonds, Series 2005B" in accordance with the provisions of the Original Resolution. The Original Resolution sets forth the general provisions of bonds secured by the revenues of the Auxiliary Facilities System.

2. Approve the Modal Agreement, between the Board and J.P. Morgan Trust Company, National Association, as Bond Registrar, in substantially the form submitted to this meeting.

The Modal Agreement sets forth the methods of setting and paying interest and the applicable tender and redemption provisions for the various interest rate modes, the terms relating to the Bond Insurer and the Liquidity Facility Provider; and the provisions pursuant to which the Board can replace the Liquidity Facility, as well as provisions relating to amendments of documents and remedies.

3. Approve the Liquidity Facility to be entered into in conjunction with the issuance of the Bonds in substantially the form submitted to this meeting. The Liquidity Facility sets forth the terms pursuant to which the Liquidity Facility Provider will provide funds to the Tender Agent to purchase tendered Bonds that have not been remarketed after a tender for purchase.

4. Approve the Bond Purchase Agreement with Citigroup Global Markets Inc., as underwriter ("Underwriter"), in substantially the form submitted to this meeting, wherein the Underwriter agrees to purchase from the board not less than all of the Bonds. The Bonds shall be sold (i) in an aggregate principal amount not exceeding $72.0 million; (ii) with a final maturity of no later than April 1, 2035; and (iii) at a price not less than 98.5 percent of the par amount thereof. The Bond Purchase Agreement sets forth the terms and conditions of the initial purchase of the Bonds from the Board by the Underwriter. To the extent permitted by law, the Board has agreed in the Bond Purchase Agreement to indemnify the Underwriter against certain liabilities or to contribute to any payments required to be made by the Underwriter relating to such liabilities, including certain liabilities under federal securities laws relating to the Bonds.

5. Approve the Preliminary Official Statement substantially in the form submitted to this meeting and the Final Official Statement in substantially the form of the Preliminary Official Statement, with appropriate variations to reflect the final terms of the Bonds. The Official Statement functions as an offering document and sets forth in summary form the terms of the Bonds and the Twelfth Supplemental Resolution, the Modal Agreement, the Tender Agent Agreement, the Liquidity Facility and the Remarketing Agreement (collectively, "Transaction Documents"), the anticipated use of the Bond proceeds, how the Bonds will be repaid, and the financial condition of the University and the Auxiliary Facilities System.

6. Approve the Remarketing Agreement between the Board and the Remarketing Agent in substantially the form submitted to this

meeting. The Remarketing Agreement sets forth the terms pursuant to which the Remarketing Agent will remarket Bonds tendered for purchase and reset the variable interest rate on the Bonds.

7. Approve the Tender Agent Agreement by and among the Board, J. P. Morgan Trust Company, National Association as Bond Registrar and Tender Agent and the Remarketing Agent in substantially the form submitted to this meeting. The Tender Agent Agreement sets forth the process by which the Tender Agent purchases tendered Bonds. The Tender Agent accepts Bonds that have been tendered by their owners, and pays the tender price with funds provided by the Remarketing Agent or draws such funds from the Liquidity Facility.

8. Authorize and empower the Comptroller of the Board and other authorized officers of the Board to execute the Transaction Documents in substantially the forms presented to this meeting, with such changes as may be approved by the officer or officers of the Board executing the same, his, her, or their execution thereof constituting conclusive evidence of the Board's approval of all changes from the forms thereof presented to this meeting; and to do and perform such other acts and things; and to make, execute, and deliver all such other instruments and documents in the name of and on behalf of the Board as may be by them deemed necessary or appropriate in connection with the provisions of the Transaction Documents, the Bond Resolution, the Preliminary Official Statement, the Final Official Statement, or the Bonds, and ratify, confirm and approve all acts and things whether heretofore or hereafter done or performed by any of the officers of the Board which are in conformity with the intents and purposes of these recommendations.

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 policies and directives.

The President of the University concurs.