Approved by the Board of Trustees
March 26, 2008

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REVISED

ROLL CALL

APPROVE REFUNDING AND/OR RESTRUCTURING OF VARIABLE RATE DEMAND BONDS

Action: Approve Actions Leading to the Refunding and/or Restructuring of Variable Rate Demand Bonds and Delegate Authority to the Executive Committee to Approve the Refunding and/or Restructuring of the Bonds

Funding: Proceeds of Revenue Bonds

The Vice President/Chief Financial Officer and Comptroller recommends approving the actions leading to the refunding and/or other restructuring of all or a portion of the outstanding Variable Rate Demand Bonds (the “VRDBs”) and the delegation of authority to the Executive Committee of the Board of Trustees of the University of Illinois to approve the refunding and/or restructuring of the VRDBs.

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 AAA rated 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 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 has increased significantly. Two examples are the Variable Rate Demand UIC South Campus Development Project Revenue Refunding Bonds, Series 2006A (the "Series 2006A Bonds") and the Variable Rate Demand Health Services Facilities System Revenue Refunding Bonds, Series 2007 (the "Series 2007 Bonds"). The Series 2006A Bonds are insured by FGIC which is rated A3 by Moody's Investors Service and A by Standard & Poor's. The interest rate on the Series 2006A Bonds reset at 8.00 percent on February 26, 2007. There are interest rate swap agreements in place with Morgan Stanley Capital Services Inc., and JP Morgan Chase Bank, N.A., for the Series 2006A Bonds. The Series 2007 Bonds are insured by Ambac which is rated Aaa by Moody's Investors Service and AAA by Standard & Poor's. The rating agencies have a negative outlook on Ambac. There is an interest rate swap agreement in place with Lehman Brothers Commercial Bank for the Series 2007 Bonds. The interest rate on the Series 2007 Bonds reset at 7.00 percent on February 27, 2008. For comparison, the SIFMA index of VRDBs reset at 3.16 percent on February 27, 2008. The attached Exhibit 1 shows a comparison of all of the University's VRDBs. The University is investigating alternatives to refund and/or restructure the Series 2006A and Series 2007 Bonds in order to strip off the bond insurance. These alternatives may include replacing the existing bond insurance with bond insurance from a stronger bond insurer or substituting a letter of credit. It is anticipated that the refunding or restructured bonds would trade at interest rates favorable to the current interest rates for the Series 2006A Bonds and Series 2007 Bonds.

The action will only be pursued if the transaction would be advantageous 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 principal amount of revenue bonds to be issued to accomplish the refunding and/or 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 $40.0 million up to $~~110.0~~**121.0** million depending on which VRDBs were refunded or restructured.

The decision as to the timing and size of the refunding and/or restructuring issue(s) will rest with the Executive Committee and will be based upon the opportunity to reduce future debt service. In no event will the aggregate principal amount of the refunding or restructuring issue(s) exceed $~~110.0~~ **121.0** 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 interest rate swaps, be considered in conjunction with a refunding and/or restructuring bond issue. 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 refunding and/or restructuring revenue bonds and/or entering into one or more derivatives transactions, all as shall be in the University's best interests, the Vice President/Chief Financial Officer and Comptroller recommends that the Board take the following actions:

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 JP Morgan Securities Inc., (for the refunding and/or restructuring of the Series 2006A Bonds) and Goldman, Sachs & Co. (for the refunding and/or restructuring of the Series 2007 Bonds), to serve as managing underwriters and/or placement agents and/or initial remarketing agents, 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 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 and/or restructuring plan if revenue bonds are issued, to the extent required.

6. Appoint The Bank of New York Trust Company, N.A., to serve as Bond Registrar and Trustee.

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 refunding and/or restructuring revenue bonds and/or entering into one or more derivatives transactions or conversion of the existing relating to the Series 2006A Bonds and Series 2007 Bonds, and (ii) authorize and direct the Vice President/Chief Financial Officer and 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 to lower future debt service.

8. Adopt an authorizing resolution with respect to the Series 2006A Bonds, which authorizes various alternatives to be considered by the Executive Committee, and the Vice President/Chief Financial Officer and Comptroller, with respect to the Series 2006A Bonds, within limits expressed in this Board action and authorizing resolution.

9. Adopt an authorizing resolution with respect to the Series 2007 Bonds, which authorizes various alternatives to be considered by the Executive Committee, and the Vice President/Chief Financial Officer and Comptroller, with respect to the Series 2007 Bonds, within limits expressed in this Board action and authorizing resolution.

~~8.~~ 10. Delegate to the Vice President/Chief Financial Officer and 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 Vice President/Chief Financial Officer and Comptroller to do so. The maximum aggregate principal amount upon issuance of such bonds shall not exceed $~~110.0~~ **121.0** million; the true interest cost of any portion of such bonds that are tax-exempt fixed rate bonds shall not exceed 6.0 percent and the maximum interest rate on any variable rate bonds shall not exceed 15 percent or, if lower, the maximum rate permitted by applicable law. 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.~~ 11. Delegate to the Vice President/Chief Financial Officer and 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 Vice President/Chief Financial Officer and Comptroller to do so.

~~10.~~ 12. Delegate to the Vice President/Chief Financial Officer and 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 and to execute and deliver all necessary documentation in connection therewith, if the Executive Committee determines that revenue bonds shall be issued and authorizes the Vice President/Chief Financial Officer and Comptroller to do so and following consultation with the managing underwriter and the University's financial advisor.

~~11.~~ 13. Delegate to the Vice President/Chief Financial Officer and 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 Vice President/Chief Financial Officer and Comptroller to do so and following consultation with the managing underwriter and the University's financial advisor. If the Vice President/Chief Financial Officer and 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.~~ 14. Delegate to the Vice President/Chief Financial Officer and 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 Vice President/Chief Financial Officer and Comptroller to do so.

~~13.~~ 15. Delegate to the Vice President/Chief Financial Officer and 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 Vice President/Chief Financial Officer and 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 underwriters or with other qualified parties, or may be competitively bid among a limited number of qualified parties, as the Vice President/Chief Financial Officer and 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.~~ 16. Delegate to the appropriate officers of the University the authority to cause to be prepared and to the Vice President/Chief Financial Officer and 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 for the bonds being refunded, 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.~~ 17. Delegate to the appropriate officers of the University the authority to cause to be prepared and to the Vice President/Chief Financial Officer and 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 February 2, 2006 (for the Series 2006A Bonds) and July 19, 2007 (for the Series 2007 Bonds), if the Executive Committee determines that revenue bonds shall be issued and authorizes them to do so if any Series 2006A Bonds or Series 2007 Bonds remain outstanding, and further authorize such officers to enter into amendments to the documents relating to such bonds as such officers may deem necessary or advisable.

~~16.~~ <u>18.</u> Delegate to the appropriate officers of the University the authority to cause to be prepared and to the Vice President/Chief Financial Officer and 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 January 4, 2008, 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.~~ <u>19.</u> 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.~~ <u>20.</u> Authorize the Executive Committee, the Vice President/Chief Financial Officer and 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 Vice President/Chief Financial Officer and 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 Organizations and Procedures*, and Board of Trustees policies and directives.

Funding will be available from the proceeds of revenue bonds.

The President of the University concurs.