Approved by the Regents
December 19, 2013

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Subject: Financing of New Projects

Action Requested: Authorization to Issue General Revenue Bonds

Background and Summary:

The University seeks to provide long term financing for the construction cash flow requirements of authorized new projects. The new projects include the A. Alfred Taubman Health Sciences Library Renovation, Central Power Plant Feed Water System Deaerator Upgrade, Institute for Social Research Addition, Regional Chiller Plant for South and West Quadrangles and the Michigan Union, South Quadrangle Renovation, Tunnel Replacement, University of Michigan-Dearborn - Academic Support Center Renovations, University of Michigan-Dearborn - Fairlane Center Renovations, University of Michigan-Dearborn - Science Building and Computer Information Science Building Renovation, University of Michigan-Dearborn - Science Building Computing Wing Renovations, and Wall Street East Parking Structure.

The dollar proceeds of the new bonds would not exceed $110 million for the financing of new projects plus the amount required to refinance any outstanding General Revenue Bonds or commercial paper. These bonds, like the commercial paper, will be supported by a pledge of the University's General Revenues.

The pledge of General Revenues consists of revenues from students, athletics, housing, Institute of Continuing Legal Education, School of Business-Management Education, parking, patient care revenues for services provided by faculty members of the Medical School, the Hospital and other University units, as well as unrestricted gifts, indirect cost recoveries, grants, and investment earnings. The General Revenue pledge does not include State Appropriations, any excluded Hospital Gross Revenues, restricted gifts or revenues from The Veritas Insurance Corporation and Michigan Health Corporation.

The particular interest and amortization aspects of these bonds would be clarified and agreed to by the Executive Vice President and Chief Financial Officer or his designee as we work with investment bankers and get a clearer sense of market conditions at the time of issuance. Depending upon market conditions, the final structure could potentially include more than one debt issue and an interest rate swap. The University currently has five other swap agreements. If liquidity is required for the financing, the University may enter into liquidity agreements.

We recommend at this time that the Regents adopt the attached resolution authorizing the Executive Vice President and Chief Financial Officer or the Associate Vice President for Finance, or the Treasurer to:

- Develop the terms, and negotiate and execute the legal documentation for the financing with the assistance of the underwriter and outside legal counsel.
- Obtain and approve a final proposal for the bonds.
- Obtain and accept a final proposal for any "swaps", and any liquidity agreements required for the University's variable rate debt, and execute and deliver the required documentation for the transaction.

Respectfully submitted,

Timothy P. Slottow
Executive Vice President
and Chief Financial Officer

December 2013
attachment

<u>RESOLUTION OF THE REGENTS OF THE UNIVERSITY OF MICHIGAN AUTHORIZING THE ISSUANCE OF GENERAL REVENUE BONDS AND PROVIDING FOR OTHER MATTERS RELATING THERETO</u>

WHEREAS, the Regents of the University of Michigan (the "Issuer") is a constitutional body corporate established pursuant to Article VIII, Section 5 of the Michigan Constitution of 1963, as amended, with general supervision of The University of Michigan (the "University") and the control and direction of all expenditures from the University's funds; and

WHEREAS, in the exercise of its constitutional duties and in order to properly serve the needs of students attending the University, the Issuer has authorized the acquisition, construction, installation and equipping of the capital improvements listed in Category I of Exhibit A attached hereto, and will consider authorizing at a future date the acquisition, construction, installation and equipping of the capital improvements listed in Category II of Exhibit A (all of such capital improvements listed in Exhibit A being collectively referred to herein as the "Project"); and

WHEREAS, the Issuer has previously issued and has outstanding certain series of General Revenue Bonds (the "Outstanding General Revenue Bonds"), and certain other obligations secured by a lien on General Revenues (as defined in Trust Agreements pursuant to which the Outstanding General Revenue Bonds were issued), and has reserved the right to issue additional series of General Revenue Bonds, notes or other obligations, secured on a parity basis as to the General Revenues with the Outstanding General Revenue Bonds and other obligations secured by a lien on General Revenues; and

WHEREAS, the Issuer has previously entered into certain interest rate swap agreements related to the debt service on portions of the Outstanding General Revenue Bonds, which are payable from and secured by General Revenues (the "Existing Swap Agreements"); and

WHEREAS, the Issuer has issued and has outstanding Commercial Paper Notes, Series I (the "Series I Notes") and Commercial Paper Notes, Series E (Taxable) (the "Series E Notes," and together with the Series I Notes, the "Notes"), which are payable from and secured by General Revenues; and

WHEREAS, it may be appropriate and economic to refund all or a portion of the Outstanding General Revenue Bonds and all or a portion of the outstanding Notes as shall be determined by an Authorized Officer (hereinafter defined) (the portion of the Outstanding General Revenue Bonds, if any, to be refunded being herein called the "Bonds to be Refunded," and the portion of the Notes, if any, to be refunded being herein called the "Notes to be Refunded"); and

WHEREAS, the financing of all or a portion of the Project and the refunding of the Bonds to be Refunded, if any, and the Notes to be Refunded, if any, through the issuance of General Revenue Bonds of the Issuer will serve proper and appropriate public purposes; and

WHEREAS, in the exercise of its constitutional duties, and in order to control and direct prudently expenditures from the University's funds, the Issuer determines it is necessary and desirable to authorize the issuance of General Revenue Bonds (the "Bonds") in order to provide funds that, together with other available funds, will be used to pay all or part of the costs of the Project, to pay all or part of the costs of refunding the Bonds to be Refunded, if any, and the Notes to be Refunded, if any, and to pay costs incidental to the issuance of the Bonds and the refunding; and

WHEREAS, one or more trust agreements (collectively, the "Trust Agreement") must be entered into by and between the Issuer and one or more trustees (collectively, the "Trustee") to be designated by an Authorized Officer, pursuant to which the Bonds will be issued and secured; and

WHEREAS, it is necessary to authorize the Authorized Officers to negotiate the sale of the Bonds with one or more underwriters or groups of underwriters to be selected by an Authorized Officer (collectively, the "Underwriter") and to enter into one or more bond purchase agreements (collectively, the "Bond Purchase Agreement") setting forth the terms and conditions upon which the Underwriter will agree to purchase the Bonds and the interest rates thereof and the purchase price therefor, or, in the alternative, to select the Underwriter for all or any portion of any series of Bonds and to establish the terms for such Bonds through a competitive sale or bidding process pursuant to a Notice of Sale; and

WHEREAS, in order to be able to market the Bonds at the most opportune time, it is necessary for the Issuer to authorize the Executive Vice President and Chief Financial Officer, the Associate Vice President for Finance and the Treasurer (each an "Authorized Officer"), or any one of them individually, to negotiate, execute and deliver on behalf of the Issuer, the Trust Agreement, the Bond Purchase Agreement, one or more remarketing agreements with the Underwriter or other parties (collectively, the "Remarketing Agreement"), and other related documents, to publish any Notice of Sale required for the sale of any portion of the Bonds, to establish the specific terms of the Bonds and to accept the offer of the Underwriter to purchase the Bonds, all within the limitations set forth herein; and

WHEREAS, the Issuer has full power under its constitutional authority for supervision of the University, and control and direction of expenditures from the University's funds, to acquire, construct, furnish and equip the Project and to pay all or a portion of the costs of the Project and the costs of refunding the Bonds to be Refunded and the Notes to be Refunded by issuance of the Bonds, and to pledge General Revenues for payment of the Bonds as provided for herein.

NOW, THEREFORE, BE IT RESOLVED BY THE REGENTS OF THE UNIVERSITY OF MICHIGAN, AS FOLLOWS:

1. The Issuer hereby approves the definition of the term "Project" as set forth on Exhibit A attached hereto, and authorizes the Authorized Officers, or any of them, to determine the specific amount of the cost of each component of the Project to be financed from the proceeds of the Bonds, provided, however, that no proceeds of the Bonds will be used to finance a component of the Project listed in Category II of Exhibit A attached hereto until final approval of such Project component is given by the Issuer. Subject to the Issuer's policies regarding approvals of capital projects, any Authorized Officer may subsequently approve additional

components of the Project and specify that such additional components shall be financed in whole or in part from the proceeds of the Bonds, upon which occurrence such components shall thereupon become components of the Project hereunder. The Issuer further approves the refunding of the Bonds to be Refunded and the Notes to be Refunded and authorizes the Authorized Officers, or any of them, to select the portion, if any, of the Outstanding General Revenue Bonds to constitute the Bonds to be Refunded and the portion, if any, of the Notes to constitute the Notes to be Refunded, in order to produce interest or other cost savings, a more favorable debt service structure, a more stable interest rate structure, more flexible documentation or a more favorable security structure, or to provide for permanent financing of projects previously financed with short-term debt, and to fund, if deemed appropriate, a portion of the costs of the refunding from available funds of the Issuer and the balance of such costs with the proceeds of the Bonds, and to proceed with the refunding.

2. The Issuer hereby authorizes the issuance, execution and delivery of the Bonds in one or more series to be designated GENERAL REVENUE BONDS, with appropriate series designations, if any, in the aggregate original principal amount to be established by an Authorized Officer, but not to exceed the principal amount necessary to produce proceeds of ONE HUNDRED TEN MILLION DOLLARS ($110,000,000) for the payment of the costs of the Project and the costs of issuance of the Bonds, plus the amount, if any, required to refund the Bonds to be Refunded and the Notes to be Refunded and to pay costs related thereto. The Bonds shall be dated as of the date or dates established by an Authorized Officer, and shall be issued for the purpose of providing funds which, together with other available funds, will be used to pay all or a portion of the costs of the Project, all or a portion of the costs of refunding the Bonds to be Refunded, if any, and the Notes to be Refunded, if any, and all or a portion of the costs related to the issuance of the Bonds and the refunding, including capitalized interest, if any, for such period as an Authorized Officer may determine appropriate, and bond insurance premiums, if appropriate. The Bonds shall be serial bonds or term bonds, which may be subject to redemption requirements, or both, as shall be established by an Authorized Officer, but the first maturity shall be no earlier than April 1, 2015 and the last maturity shall be no later than December 31, 2045. The Bonds may bear no interest or may bear interest at stated fixed rates for the respective maturities thereof as shall be established by an Authorized Officer, but the weighted average yield (computed using the stated coupons and the stated original offering price) for the Bonds shall not exceed 7.0% per annum for tax-exempt Bonds or 11.0% per annum for taxable Bonds, and the Bonds may be issued in whole or in part as capital appreciation bonds, which for their term or any part thereof bear no interest but appreciate in principal amount over time at compounded rates (not in excess of 7.0% per annum for tax-exempt Bonds or 11.0% per annum for taxable Bonds) to be determined by an Authorized Officer. Alternatively, all or part of the Bonds may bear interest at a variable rate of interest for all or a portion of their term, at indexed or market established rates or any combination thereof, and the variable rate of interest shall not exceed the lesser of the maximum rate permitted by law or the maximum rate, if any, to be specified in the Trust Agreement. The Bonds may be subject to redemption or call for purchase prior to maturity at the times and prices and in the manner as shall be established by an Authorized Officer, but no redemption premium shall exceed 3% of the principal amount being redeemed unless the redemption price is based on a "make whole" formula, in which case no redemption premium shall exceed 40% of the principal amount being redeemed. Interest on the Bonds shall be payable at such times as shall be specified by an Authorized Officer. The Bonds

shall be issued in fully registered form in denominations, shall be payable as to principal and interest in the manner, shall be subject to transfer and exchange, and shall be executed and authenticated, all as shall be provided in the Trust Agreement. The Bonds shall be sold to the Underwriter pursuant to the Bond Purchase Agreement or through a competitive sale or bidding process pursuant to a Notice of Sale for a price to be established by an Authorized Officer (but the Underwriter's discount, exclusive of original issue discount, shall not exceed 1.50% of the principal amount thereof) plus accrued interest, if any, from the dated date of the Bonds to the date of delivery thereof.

Any or all of the Bonds may be made subject to tender for purchase at the option of the holder thereof or to mandatory tender for purchase. The obligation of the Issuer to purchase any Bonds subject to tender for purchase may be limited to remarketing proceeds of the Bonds, or may be made payable from General Revenues (as defined in Section 3 below), from available cash reserves of the University, subject to such limitations as may be specified in the Trust Agreement, or from, directly or as support for the cash reserves, a letter of credit, line of credit, standby bond purchase agreement or other liquidity device, or one or more of the same, or any combination thereof (collectively, the "Liquidity Device"), all as shall be determined by an Authorized Officer. The Liquidity Device, or any part thereof, may also be used to provide liquidity for any other indebtedness or obligations of the Issuer, including the Notes and the Outstanding General Revenue Bonds. Any reimbursement obligation for draws under the Liquidity Device shall be a limited and not a general obligation of the Issuer, payable from, and may be secured by a pledge of, General Revenues (as defined in Section 3 below). Any Authorized Officer is authorized to execute and deliver, for and on behalf of the Issuer, any agreements or instruments necessary to obtain, maintain, renew or replace, and provide for repayments under, any Liquidity Device deemed by such officer to be required for the purposes of this Resolution.

Any Bonds authorized and issued hereunder may, at any time, upon direction of an Authorized Officer, be subsequently converted to another mode or structure authorized hereby, either through procedures established in the Trust Agreement pertaining thereto, or through the issuance hereunder of refunding bonds to refund and replace the outstanding Bonds to be converted. Any such refunding bonds issued hereunder shall be subject to the terms, conditions and limitations contained in this Resolution. Any Authorized Officer is authorized to execute and deliver, for and on behalf of the Issuer, any documents or instruments, including but not limited to, any amendments to the Trust Agreement, necessary or convenient for the purpose of accomplishing the conversion as described in this paragraph.

In connection with the refunding of all or any portions of the Outstanding General Revenue Bonds, any Authorized Officer may, in the name and on behalf of the Issuer, and as its corporate act and deed, modify any of the Existing Swap Agreements, in whole or in part, and relate any of such Existing Swap Agreements to any portion of the debt service on the Bonds or any Outstanding General Revenue Bonds, or terminate any Existing Swap Agreements, in whole or in part, and any fees or termination payments required in connection with any such modifications or terminations may be paid from proceeds of the Bonds, or from available funds of the Issuer, as determined by an Authorized Officer.

In relation to the debt service on all or any portion of the Bonds, or in relation to debt service on all or any portion of the Outstanding General Revenue Bonds, any of the Authorized Officers may, at any time, on behalf of and as the act of the Issuer, enter into or modify an interest rate swap, cap, forward starting swap, option, swaption, rate lock or similar agreement or agreements (collectively, the "Swap Agreement") with a counter-party or counter-parties selected or to be selected by the Authorized Officer. Such Swap Agreement shall provide for payments between the Issuer and the counter-party related to interest on all or a portion of the Bonds or the Outstanding General Revenue Bonds, at indexed or market established rates. If the Swap Agreement is entered into at approximately the same time as the issuance of the Bonds and is related to the Bonds, the expected effective interest rates on the Bonds to which the Swap Agreement relates, taking into account the effect of the Swap Agreement, shall be within the limitations set forth herein. Any Swap Agreement may, if determined necessary or appropriate by an Authorized Officer, be subsequently terminated, in whole or in part, which may result in termination payments due by the Issuer. Any such required payments and other costs of termination may be funded from available funds of the Issuer or the proceeds of the Bonds or other indebtedness of the Issuer.

3. The Bonds, and the obligations of the Issuer under the Swap Agreement, if any, and the Liquidity Device, if any, shall be limited and not general obligations of the Issuer payable from and, except as provided below in this Section 3, secured by a lien on, the General Revenues (as shall be defined in the Trust Agreement in a manner generally consistent with the definition thereof contained in the Trust Agreements pursuant to which the Outstanding General Revenue Bonds were issued). Except as otherwise determined by an Authorized Officer, as provided below in this Section 3, the lien on General Revenues shall be on a parity basis with the lien on General Revenues securing the Notes and the Outstanding General Revenue Bonds. The Bonds and the obligations of the Issuer under the Swap Agreement, if any, and the Liquidity Device, if any, may also be payable from and secured by a lien on moneys, securities or other investments from time to time on deposit in certain funds created pursuant to the Trust Agreement or agreements entered into in connection with the Swap Agreement or Liquidity Device.

No recourse shall be had for the payment of the principal amount of or interest or premium on the Bonds, or for the payment of any amounts owing under the Swap Agreement, if any, or the Liquidity Device, if any, or any claim based thereon, against the State of Michigan, or any member, officer or agent of the Issuer or the University, as individuals, either directly or indirectly, nor, except as specifically provided in the Trust Agreement or the instruments entered into in connection with the Swap Agreement, if any, or the Liquidity Device, if any, against the Issuer, nor shall the Bonds and interest with respect thereto, or any obligations of the Issuer in connection with the Swap Agreement, if any, or the Liquidity Device, if any, become a lien on or be secured by any property, real, personal or mixed, of the State of Michigan or the Issuer, other than the General Revenues and the moneys, securities or other investments from time to time on deposit in all or part of the funds established by the Trust Agreement or the agreements entered into in connection with the Swap Agreement, if any, or the Liquidity Device, if any.

Any pledge of General Revenues, and funds specified in the Trust Agreement or agreements entered into in connection with the Swap Agreement, if any, or Liquidity Device, if any, shall be valid and binding from the date of the issuance and delivery of the Bonds or such agreements, and all moneys or properties subject thereto which are thereafter received shall immediately be subject to the lien of the pledge without physical delivery or further act. The lien of said pledge shall be valid and binding against all parties (other than the holders of any outstanding bonds, notes or other obligations secured by a parity first lien on General Revenues) having a claim in tort, contract or otherwise against the Issuer, irrespective of whether such parties have notice of the lien.

Notwithstanding anything herein to the contrary, any obligations of the Issuer under the Swap Agreement or the Liquidity Device may, if determined appropriate by an Authorized Officer, be payable and secured on a subordinated basis to the Bonds and other General Revenue obligations of the Issuer, or may be payable from General Revenues but be unsecured.

4. The right is reserved to issue additional bonds, notes or other obligations payable from General Revenues and secured on a parity or subordinated basis with the Bonds by a lien on General Revenues, upon compliance with the terms and conditions, if any, as shall be set forth in the Trust Agreement.

5. Any Authorized Officer is hereby authorized and directed, in the name and on behalf of the Issuer, and as its corporate act and deed, to select the Trustee, and to negotiate, execute and deliver the Trust Agreement. The Trust Agreement may contain such covenants on behalf of the Issuer and terms as such officers deem appropriate, including, if deemed appropriate, but not limited to, covenants with respect to the establishment of General Revenues at levels expressed as a percentage of debt service on the Bonds or all General Revenue Bonds, and with respect to the issuance of additional bonds, notes or other obligations payable from and secured by General Revenues. In addition, any Authorized Officer is hereby authorized, empowered and directed to negotiate, if necessary and expedient for the issuance of the Bonds, for the acquisition of bond insurance and to execute and deliver an insurance commitment or other documents or instruments required in connection with such insurance.

6. Any Authorized Officer is hereby authorized and directed, in the name and on behalf of the Issuer and as its corporate act and deed, to select the Underwriter and to negotiate, execute and deliver the Bond Purchase Agreement with the Underwriter setting forth the terms of the Bonds and the sale thereof, in the form as an Authorized Officer may approve, all within the limitations set forth herein. In the alternative, if determined appropriate by an Authorized Officer, selection of the Underwriter and setting of the terms for all or any portion of any series of the Bonds may be made through a competitive sale or bidding process. Any Authorized Officer is authorized to accept the winning bid or offer of the Underwriter for the purchase of such Bonds. Any Authorized Officer is further authorized and directed, in the name and on behalf of the Issuer and as its corporate act and deed, to negotiate, execute and deliver the Remarketing Agreement with the Underwriter or other party selected by the Authorized Officer.

7. The Executive Vice President and Chief Financial Officer, or in the event of his unavailability, the President, is hereby authorized, empowered and directed, in the name and on behalf of the Issuer, and as its corporate act and deed, to execute the Bonds by placing his or her

facsimile or manual signature thereon, and to deliver or cause to be delivered the Bonds to the Underwriter in exchange for the purchase price therefor.

8. Any Authorized Officer is hereby authorized to solicit ratings on the Bonds from any national rating services that the Authorized Officer deems appropriate and to cause the preparation of one or more Preliminary Official Statements, if necessary, and to deem such Preliminary Official Statements "final" in accordance with applicable law, and to cause the preparation of one or more Official Statements with respect to the Bonds, and to execute and deliver the Official Statements. In the event that all or any portion of any series of the Bonds is to be sold by means of a competitive sale or bidding process, as provided in this Resolution, any Authorized Officer is authorized to prepare and publish or cause to be published, or otherwise distribute, in such manner as an Authorized Officer shall determine, a Notice of Sale for such Bonds. Any Authorized Officer or the Underwriter is authorized to circulate and use, in accordance with applicable law, the Notice of Sale, if any, the Preliminary Official Statements, if any, and the Official Statements in connection with the offering, marketing and sale of the Bonds.

9. The President, the Authorized Officers, the Secretary or Assistant Secretary, the Vice President and General Counsel and any associate general counsel, and any other appropriate officer of the Issuer or the University are hereby authorized to perform all acts and deeds and to execute and deliver for and on behalf of the Issuer all instruments and documents required by this resolution, the Trust Agreement, the Remarketing Agreement, the Swap Agreement, the Liquidity Device or the Bond Purchase Agreement, or necessary, expedient and proper in connection with the issuance, sale and delivery of the Bonds, as contemplated hereby, including, if deemed appropriate, one or more escrow deposit agreements with an escrow agent to be selected by an Authorized Officer as may be necessary in connection with any refunding or refinancing authorized hereby. Each Authorized Officer is hereby authorized to designate and empower the escrow agent or the Underwriter to subscribe for United States Treasury Obligations, State and Local Government Series, on behalf of the Issuer, as may be necessary in connection with any refunding or refinancing authorized hereby. Each Authorized Officer is further authorized to execute and deliver all instruments and documents for and on behalf of the Issuer or the University required, necessary or appropriate for the ongoing administration or operation of the financing program represented by the Bonds, the Swap Agreement and the Liquidity Device, all as contemplated hereby. Any reference to an officer of the Issuer or the University herein shall include any interim or acting officer appointed by the Issuer. Any action required under the Trust Agreement, Bond Purchase Agreement, Swap Agreement, Liquidity Device or other instrument related to the Bonds may be taken by and on behalf of the Issuer by any Authorized Officer.

10. In accordance with the requirements of Rule 15c2-12 of the United States Securities and Exchange Commission, the Issuer may be required in connection with the issuance of the Bonds to enter into one or more Disclosure Undertakings for the benefit of the holders and beneficial owners of the Bonds. Any Authorized Officer is authorized to cause to be prepared and to execute and deliver, on behalf of the Issuer, the Disclosure Undertakings.

11. Each Authorized Officer is hereby authorized and delegated the authority to execute, on behalf of the Issuer, a declaration of intent to reimburse Issuer funds expended on the Project, and on future projects, from the proceeds of the Bonds or other bonds to be issued in the future, all in accordance with Treasury Regulation § 1.150-2. Any and all actions of any Authorized Officer previously taken in connection with the execution of such a declaration are hereby ratified and confirmed.

12. All resolutions or parts of resolutions or other proceedings of the Issuer in conflict herewith be and the same are hereby repealed insofar as such conflict exists.

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EXHIBIT A
PROJECT DESCRIPTION

The Project consists of the components set forth below:

Category I - Authorized Projects:

- A. Alfred Taubman Health Sciences Library Renovation
- Central Power Plant Feed Water System Deaerator Upgrade
- Institute for Social Research Addition
- Regional Chiller Plant for South and West Quadrangles and the Michigan Union
- South Quadrangle Renovation
- University of Michigan-Dearborn - Academic Support Center Renovations
- University of Michigan-Dearborn - Fairlane Center Renovations
- University of Michigan-Dearborn - Science Building and Computer Information Science Building Renovation
- University of Michigan-Dearborn - Science Building Computing Wing Renovations
- Wall Street East Parking Structure

Category II - Projects requiring final approval by the Issuer prior to funding with Bond proceeds:

- Tunnel Replacement

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