THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Approved by the Regents
February 15, 2007

REQUEST FOR ACTION

Subject: Financing of the University of Michigan Hospitals and Health Centers C.S. Mott Children's and Women's Hospitals Replacement Project

Action Requested: Authorization to Issue Hospital Revenue Bonds

Background and Summary:

The University has provided interim financing to the University of Michigan Hospitals and Health Centers C.S. Mott Children's and Women's Hospitals Replacement Project under the existing $150 million commercial paper program. We seek to provide long term financing for this project. This new financing will replace the existing commercial paper debt and provide the construction cash flow requirements for the remaining cost of the project to be financed with debt.

The dollar amount of the new bond issue would not exceed $160 million. The financing will be executed under the Master Indenture that covers all Hospital Revenue Bonds and the respective Series Indenture. The security for the bonds will be a pledge of the Hospital Gross Revenues. This pledge includes the revenues from the operation of the Hospital and investment earnings, and excludes State Appropriations and Medical Service Plan Revenues. In the Master Indenture, the Regents have committed to maintain Adjusted Net Revenues (Gross Revenues less operating expenses), at least 125% of the annual debt service.

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 an interest rate swap (variable rate bonds "swapped" to fixed rate for interest expense purposes). The University currently has three other bond issues with interest rate swap structures. 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 requirements 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

February 2007
attachment

RESOLUTION OF THE
REGENTS OF THE UNIVERSITY OF MICHIGAN
AUTHORIZING THE ISSUANCE AND DELIVERY OF
HOSPITAL REVENUE OBLIGATIONS,
AND PROVIDING FOR OTHER MATTERS RELATING THERETO

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

WHEREAS, the Issuer entered into a master indenture, as supplemented (the "Master Indenture") dated as of May 1, 1986 with U.S. Bank National Association (successor to Comerica Bank) as Master Trustee (the "Master Trustee"), pursuant to which revenue obligations for the benefit of The University of Michigan Hospitals (the "Hospital") have been and will be issued and secured; and

WHEREAS, the Issuer has issued and has outstanding Commercial Paper Notes, Series G (the "Series G Notes") which are payable from and secured by General Revenues (as defined in the instruments authorizing the Series G Notes), the proceeds of which, in part provided for interim financing or refinancing for the Project (hereinafter defined), and it may be appropriate and economic to refund all or a part of the outstanding principal of the Series G Notes; and

WHEREAS, in the exercise of its constitutional duties and in order to properly serve the needs of the University, and its students and constituents, the Issuer has authorized the acquisition, construction, installation and equipping of the capital improvements described in

Exhibit A (collectively, the "Project"), all of which are or will become part of, or otherwise will benefit the Hospital; and

WHEREAS, in the exercise of its constitutional duties, and in order to prudently control and direct expenditures from the University's funds, the Issuer determines it is necessary and desirable to authorize the issuance of one or more series of hospital revenue obligations (the "Bonds") to provide funds which, together with other available funds, may be used to pay all or a portion of the costs of the Project, to pay all or a portion of the costs of refinancing all or a portion of the Series G Notes, and to pay certain costs incurred in connection with the issuance and sale of the Bonds, and the refinancing; and

WHEREAS, the Bonds will be issued pursuant to a trust indenture (the "Series Indenture") to be entered into by and between the Issuer and a trustee (the "Series Trustee") to be selected by the Executive Vice President and Chief Financial Officer, Associate Vice President for Finance, or Treasurer of the University (each an "Authorized Officer") as a series of revenue obligations under the Master Indenture; and

WHEREAS, it is necessary to authorize the Authorized Officers to negotiate the sale of the Bonds with an underwriter or group of underwriters to be selected by an Authorized Officer (collectively, the "Underwriter") and to enter into a bond purchase agreement (the "Bond Purchase Agreement") and, if deemed appropriate, a Remarketing Agreement (the "Remarketing Agreement") or a Broker Dealer Agreement (the "Broker Dealer Agreement") with the Underwriter 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; and

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

1. The Issuer hereby authorizes the issuance, execution and delivery, in one or more series, of the Bonds of the Issuer to be designated as shall be determined by an Authorized Officer (but which designation shall include the words "HOSPITAL REVENUE BONDS" or "HOSPITAL REVENUE NOTES") with appropriate series designation, 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 $160,000,000, to be dated as of the date or dates established by an Authorized Officer, for the purpose of providing funds which, together with other available funds, may be used to pay all or a portion of the costs of the Project, to pay all or a portion of the costs of refinancing all or a portion of the Series G Notes, and to pay costs incidental to the issuance of the Bonds, and the refinancing, including capitalized interest, if any for such period as an Authorized Officer may determine appropriate, and bond insurance premiums, if any. Any Authorized Officer is authorized to determine (a) the specific amount of the cost of each component of the Project to be financed from the proceeds of the Bonds, and (b) the portion of the Series G Notes to be refinanced with the proceeds of the Bonds. The Issuer 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 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 December 31, 2007 and the last maturity shall be no later than December 31, 2038. 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, 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) to be determined by an Authorized Officer. Alternatively, all or part of the Bonds may bear interest at a variable rate of interest, determined on the basis of an index or through market procedures, or both, for all or a portion of their term, 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 Series Indenture. In addition, all or part of the Bonds may be issued in related series, one of which bears interest at a variable rate and one of which bears interest at a residual rate determined by subtracting the variable rate from the fixed rate paid by the Issuer, but the combined rate on such Bonds, taking the two related series together, which shall be determined by an Authorized Officer, shall not exceed 7.0% per annum. 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 10% 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 Series Indenture. The Bonds shall be sold to the Underwriter pursuant to the Bond Purchase Agreement for a price to be established by an Authorized Officer (but the Underwriter's discount, exclusive of original issue discount, shall not exceed 0.7% of the principal amount thereof) plus accrued interest, if any, from the dated date of the Bonds to the date of delivery thereof.

In relation to the debt service on the Bonds, or in relation to the debt service on any outstanding Revenue Obligations, any of the Authorized Officers may, at any time, on behalf of and as the act of the Issuer, enter into an interest rate swap, cap, forward starting swap, rate lock, option, swaption or similar agreement or agreements (collectively, the "Swap Agreement") with a counter-party or counter-parties 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 to indexed or market established rates. If the Swap Agreement is entered at approximately the same time as the issuance of the Bonds, the expected effective interest rates on the Bonds, taking into account the effect of the Swap Agreement, shall be within the limitations set forth herein. Any Swap Agreement in the form of an option, swaption, rate lock or forward starting swap, may, under certain circumstances, be required to be terminated, with a possibility of a resulting termination payment due by the University.

Any or all of the Bonds may be made subject to tender for purchase at the option of the holder thereof. The obligation of the Issuer to purchase any Bonds subject to tender options may be made payable from Hospital Gross Revenues (as defined in the Master Indenture), from available cash reserves of the University, subject to such limitations as may be specified in the Series Indenture, or from 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. Any reimbursement obligation for draws under the Liquidity Device shall be a limited and not a general obligation of the Issuer, payable from Hospital Gross Revenues, and may be secured by a pledge of Pledged Hospital Gross Revenues (as defined in the Master Indenture), and may, additionally or alternatively, be payable from General Revenues and may be secured by a pledge of General Revenues, as an Authorized Officer shall determine appropriate. Any Authorized Officer is authorized to execute and deliver at any time, for and on behalf of the Issuer, any agreements or instruments, including amendments to the Series Indenture, 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. In the alternative, any or all of the Bonds may be subject to rights on behalf of the holders thereof to tender their Bonds for purchase by the market through an auction procedure, subject to a specified maximum interest rate not in excess of the lesser of the maximum rate specified by law or the rate specified in the Series Indenture.

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, through procedures established in the Series Indenture pertaining thereto. Either 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 Series Indenture, necessary or convenient for the purpose of accomplishing the conversion as described in this paragraph.

2. The Bonds and the Issuer's obligations under any Swap Agreement and (except as otherwise provided in the preceding Section 1) any Liquidity Device shall be limited and not general obligations of the Issuer payable from Hospital Gross Revenues and equally and ratably secured with all other Revenue Obligations (as defined in the Master Indenture) by an irrevocable pledge of the Pledged Hospital Gross Revenues, and the funds from time to time on

deposit in certain of the funds created pursuant to the Master Indenture and may be additionally secured by the funds from time to time on deposit in certain of the funds created pursuant to the Series Indenture or the Swap Agreement or documents entered into in connection with the Liquidity Device.

Except as provided in the Master Indenture and the Series Indenture, or the Swap Agreement or documents entered into in connection with the Liquidity Device, no recourse shall be had for the payment of the principal amount of or interest or premium on the Bonds or any obligation of the Issuer under the Master Indenture or the Series Indenture, or under the Swap Agreement or Liquidity Device, or any claim based thereon against the State of Michigan, the Issuer, or any officer or agent thereof, as individuals, either directly or indirectly, nor shall the Bonds or any obligation of the Issuer under the Master Indenture or the Series Indenture, or under the Swap Agreement or Liquidity Device, become a lien on or be secured by any property, real, personal or mixed of the State of Michigan or the Issuer or the University, other than the Pledged Hospital Gross Revenues and the moneys from time to time on deposit in certain of the funds established by the Master Indenture and the Series Indenture or the Swap Agreement or documents entered into in connection with the Liquidity Device; provided, that as set forth above, the Issuer's obligations under the Liquidity Device may be made payable from, and may be secured by a pledge of, General Revenues.

Any pledge of Pledged Hospital Gross Revenues, General Revenues, and funds specified in the Master Indenture, Series Indenture, Swap Agreement or agreements entered into in connection with the 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 pledges shall be valid and binding against all parties (other than the holders of any outstanding bonds, notes or other obligations secured by a parity lien on Pledged Hospital Gross Revenues or a parity or superior lien on General Revenues or a portion thereof) 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 any agreement with respect to the Liquidity Device may, if determined appropriate by an Authorized Officer, be payable and secured on a subordinated basis to the Bonds and other Hospital Revenue obligations or General Revenue obligations of the Issuer.

3. The right is reserved to issue additional bonds, notes or other obligations payable from Hospital Gross Revenues, or secured on a parity basis with the Bonds from the Pledged Hospital Gross Revenues, upon compliance with the terms and conditions set forth in the Master Indenture.

4. 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 Series Trustee, and to negotiate, execute and deliver the Series Indenture. In addition, any Authorized Officer is hereby authorized, empowered and directed to negotiate, if necessary and expedient for the issuance of the Bonds, for acquisition of bond insurance and to execute and deliver an insurance commitment or other documents or instruments required in connection with such insurance.

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 Underwriter and to negotiate, execute and deliver the Bond Purchase Agreement and Remarketing Agreement or Broker

Dealer Agreement, if necessary, with the Underwriter setting forth the terms of the Bonds and the sale thereof, all within the limitations set forth herein.

6. 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 thereof, as provided in the Bond Purchase Agreement.

7. Either Authorized Officer is hereby authorized to prepare or arrange to be prepared the Preliminary Official Statement, if necessary, with respect to the Bonds and to prepare or arrange to be prepared, and to execute and deliver on behalf of the Issuer, the Official Statement with respect to the Bonds and such supplements or amendments to the Official Statement as may be required pursuant to the Bond Purchase Agreement and to deem such statements "final" in accordance with applicable law. The Underwriter is hereby authorized to circulate and use the Preliminary Official Statement and the Official Statement, as the same may be so supplemented or amended, in accordance with applicable law, in the offering, marketing and sale of the Bonds.

8. Any of the Authorized Officers, the Secretary, the General Counsel, and any other appropriate officer of the Issuer or the University are, and any one of them is, hereby authorized to perform all acts and deeds and to execute and deliver all instruments and documents for and on behalf of the Issuer or the University, including, if appropriate, one or more escrow deposit agreements with an escrow agent to be selected by an Authorized Officer, necessary, expedient and proper in connection with the issuance, sale and delivery of the Bonds or any issue or series

thereof, or required by this resolution, the Master Indenture, the Series Indenture, the Remarketing Agreement, the Broker Dealer Agreement or the Bond Purchase Agreement, or the Swap Agreement or documents entered into in connection with the Liquidity Device. Either Authorized Officer may authorize the Underwriter or escrow agent to subscribe for investments, including United States Treasury State and Local Government Obligations, required in connection with any refinancing contemplated hereby. Either of the Authorized Officers 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 Agreement, 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.

9. 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 a Disclosure Undertaking for the benefit of the holders and beneficial owners of the Bonds. Either Authorized Officer is authorized to cause to be prepared and to execute and deliver, on behalf of the Issuer, the Undertaking.

10. If deemed necessary or appropriate by an Authorized Officer, based on the advice of the Issuer's bond counsel, either of the Authorized Officers is authorized to arrange for the publication of a notice of and to conduct a public hearing with respect to the issuance of tax-exempt Bonds, if applicable, for that portion of the Project, or any project financed from the proceeds of the Revenue Obligations, that may be used by private entities, all in accordance with requirements of Section 147(f) of the Internal Revenue Code of 1986, as amended.

11. 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.

EXHIBIT A

PROJECT

The Project consists of the components set forth below:

- C.S. Mott Children's and Women's Replacement Hospital, and related facilities, including furnishings and equipment.

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