THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION


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 and other projects approved in accordance with policies regarding new construction and renovation project approvals. The new projects include: the University of Michigan Hospitals and Health Centers (now referred to as the University of Michigan Hospitals—“UMH”) Brighton Health Center South; the UMH North Campus Research Complex Buildings 30, 35, 36 and 60, University Hospital, and University Hospital South Clinical NCRC Pathology Laboratories Relocation and Renovation; the New Biological Science Building; the North Campus Research Complex Buildings 20 and 25 Laboratory Renovation; the Michigan Union Renovation; the Central Power Plant 13,200 Volt Switchgear Upgrade; the North Campus Recreation Building Renovation; the Flint North Tower Renovation; and other capital projects in each case not exceeding $3 million. The financing plan may also include the refunding of certain of the University’s outstanding General Revenue Bonds in order to achieve interest or other cost savings or to achieve a more advantageous debt structure if market conditions are favorable, and the refinancing of a portion of the University’s outstanding commercial paper notes in order to provide long-term financing for certain previously authorized projects.

The dollar proceeds of the new bonds would not exceed $220 million for the financing of new projects, plus the amount required to refinance any outstanding General Revenue Bonds or commercial paper notes. The dollar amount required to refund any outstanding General Revenue Bonds is not expected to exceed $40 million and would take into account market conditions and analysis of recommendations made by our investment banks. At present, it is not anticipated that the University will have any outstanding commercial paper notes that will be refinanced. These bonds, like the existing bonds and commercial paper notes, 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 interest rate swaps. 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(s) 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.

October 2017

attachment
RESOLUTION OF THE REGENTS OF THE UNIVERSITY OF MICHIGAN
AUTHORIZING THE ISSUANCE AND DELIVERY OF GENERAL REVENUE BONDS
AND PROVIDING FOR OTHER MATTERS RELATING THERETO

WHEREAS, the Regents of the University of Michigan (the "Issuer") is a constitutional body corporate established pursuant to Article VIII, Section 5 of the Constitution of Michigan 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 determined that it is appropriate and in the best interests of the University to finance all or a portion of certain capital improvements of the University, as described in Exhibit A attached hereto (all of such capital improvements described in Exhibit A being collectively referred to herein as the "Project"), with the proceeds of the General Revenue Bonds authorized hereby; 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, in each case payable from and secured by a lien on General Revenues (as hereinafter defined), and has reserved the right to issue additional series of bonds, notes or other obligations, secured by General Revenues on a parity basis 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 a lien on General Revenues (the "Existing Swap Agreements"); and

WHEREAS, the Issuer has previously authorized the issuance of its Commercial Paper Notes, Series E (Taxable), its Commercial Paper Notes, Series K-1 (Tax-Exempt) and its Extendable Commercial Paper Notes, Series K-2 (Tax-Exempt) (collectively, the "Notes"), which are payable from and secured by a lien on General Revenues; and

WHEREAS, it may be appropriate and in the best interests of the University 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 to be refunded, if any, being herein called the "Bonds to be Refunded," and the portion of the outstanding Notes to be refunded, if any, being herein called the "Notes to be Refunded"); and

WHEREAS, the financing of all or a portion of the costs 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 that it is necessary and desirable to authorize the issuance of General Revenue Bonds (the "Bonds"), payable from and secured by a pledge of General Revenues, in order to provide funds that, together with other
that if a component of the Project described in Category II of Exhibit A requires the approval of the Issuer in accordance with the Issuer's policies regarding the approval of capital projects, no proceeds of the Bonds may be used to finance such Project component until approval of such Project component is given by the Issuer. Subject to the Issuer's policies regarding the approval 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 all or any portion of the Outstanding General Revenue Bonds and all or any portion of the outstanding Notes and authorizes the Authorized Officers, or any one of them individually, 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 outstanding Notes to constitute the Notes to be Refunded, in order to produce interest or other cost savings or a more favorable debt service structure, to reduce or eliminate risks associated with variable rate bonds, to provide for more favorable terms or covenants, 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.

In connection with the refunding of all or any portion 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.

2. Authorization of the Bonds and Related Agreements; Bond Terms. 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, 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 TWO HUNDRED TWENTY MILLION DOLLARS ($220,000,000) 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, as determined by an Authorized Officer. 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, including, if determined to be appropriate by an Authorized Officer, capitalized interest related to all or any portion of the Project for a period specified by an Authorized Officer, to pay 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 to pay costs related to the issuance of the Bonds and the refunding, including the costs of bond insurance premiums, if an Authorized Officer determines such insurance to be 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.
converted. Any such refunding bonds issued hereunder shall be subject to the terms, conditions and limitations contained in this Resolution. Each Authorized Officer is individually 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 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 one 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 counterparty or counterparties selected or to be selected by the Authorized Officer. Such Swap Agreement shall provide for payments between the Issuer and the counterparty related to interest on all or any 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. **Limited Obligations of the Issuer; Security.** 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 securing the Bonds, the Swap Agreement and the Liquidity Device, if any, shall be on a parity basis with the liens 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, or, 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
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, and each Authorized Officer is individually authorized to accept the winning bid or offer of the Underwriter for the purchase of such Bonds. Each Authorized Officer is further individually 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. **Execution and Delivery of Bonds.** 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. **Ratings; Official Statement; Notice of Sale.** Each Authorized Officer is hereby individually authorized to solicit ratings on the Bonds from any national rating services that the Authorized Officer deems appropriate and to cause the preparation of a Preliminary Official Statement, if necessary, and an Official Statement with respect to each series of the Bonds, to deem such official statements “final” in accordance with applicable law, 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, each Authorized Officer is individually 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. Each 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. **Authorization of Other Actions.** 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 each 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 and 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 individually authorized to designate and empower the escrow agent or the Underwriter to subscribe for United States Treasury Securities – State and Local Government Series, on behalf of the Issuer, as may be necessary in connection with any refunding or refinancing authorized hereby. Any action required under the Trust Agreement, the Remarketing Agreement, the Bond Purchase Agreement, the Swap Agreement or the Liquidity Device or any other instrument related to the Bonds, and any
EXHIBIT A
PROJECT DESCRIPTION

The Project, as that term is used in the Resolution to which this Exhibit A is attached, consists of the components set forth below:

Category I – Authorized Projects

- University of Michigan Hospitals and Health Centers (now referred to as University of Michigan Hospitals – “UMH”) Brighton Health Center South
- UMH North Campus Research Complex Buildings 30, 35, 36 and 60, University Hospital, and University Hospital South Clinical Pathology Laboratories Relocation and Renovation
- New Biological Science Building
- North Campus Research Complex Buildings 20 and 25 Laboratory Renovation
- Michigan Union Renovation
- Central Power Plant 13,200 Volt Switchgear Upgrade
- North Campus Recreation Building Renovation

Category II – Projects Requiring Approval of the Issuer (to the extent exceeding $3,000,000)

- Flint North Tower Renovation

Category III – Other Capital Projects (in each case not exceeding $3,000,000)

New construction and renovation projects of the University, each with an estimated cost of $3,000,000 or less, including, but not limited to: replacement of elevators; upgrading of mechanical and electrical systems; replacement of roofing material; building renovation, furnishing and equipping; and other miscellaneous infrastructure and utility projects, renovations and/or enhancements.