SECTION: 2
DATE: March 14, 2006

BOARD OF REGENTS

EASTERN MICHIGAN UNIVERSITY

RECOMMENDATION

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

ACTION REQUESTED

It is recommended that the Supplement to the Resolution of the Board of Regents of Eastern Michigan University authorize the issuance and delivery of general revenue bonds and provide for other matters relating thereto be approved.

STAFF SUMMARY

Increasing defaults in the residential subprime mortgage market have a had a severe negative impact on the bond insurance companies which have provided credit enhancement to the University's Series 2001 and Series 2006A variable rate demand bonds. The Series 2001 bonds are insured by Financial Guaranty Insurance Company (FGIC) and Series 2006 bonds are insured by XL Capital Assurance, both have the interest rate reset every day. Liquidity support is provided in the form of a standby bond purchase agreement from Dexia Credit Local, a French bank for both Series.

XL Capital and FGIC have each had their ratings downgraded as a result of the losses they have incurred and are expected to incur in the future on securities tied to pools of residential subprime mortgages. As a result of these downgrades, many money market funds, the primary investors in this type of security, have determined that they are not willing to hold this type of credit structure (insurance plus liquidity) at any level of interest rates. The market has reacted by raising the clearing rate of interest on bonds with this structure to very high levels. The University's variable interest rates were as high as 8.5% in the month of February 2008 with averages of 7.4% and 7.9%.

In response, the University has sought alternative credit facilities to replace the existing credit structures. We have received proposals from Charter One Bank, a division of the Royal Bank of Scotland, as well as from Dexia Credit Local, the current provider of our liquidity facilities. The University has also requested a proposal from Chase, but to date has not received a complete reply. Based on the pricing and terms of the facilities provided, we are recommending acceptance of the proposal from Dexia, subject to final credit approval by the bank and agreement on documentation.

The terms of the existing bonds do not allow for the University simply to add a letter of credit to the financing. Accordingly, the University intends to issue refunding bonds which will retire the existing obligations; the letter of credit from Dexia will provide both credit and liquidity enhancement to the new series of bonds.

The University has also investigated the alternative approach of refunding the bonds into a fixed rate structure. The biggest challenge to implementing a fixed rate refunding is the disposition of the related interest rate swaps. Terminating the swaps and creating a fixed structure would cost the University approximately $10 million. The return to Eastern Michigan University by creating a fixed rate structure would not be financially advantageous. These significant termination fees would need either to be paid from University resources or financed with the refunding, which would limit the amount of bonding capacity for the future bonding for Pray-Harrold.

FISCAL IMPLICATIONS

The increase in the variable rates for the Series 2001 and Series 2006 bonds, estimated additional costs for the months of January and February 2008 at $684,000. Approval of this recommendation for the University to proceed in providing an alternative support for credit enhancement is to avoid dramatic cost increases to the University being experienced under the current loan structure.

The estimated costs to refund the bonds include the issuance costs of $332,000, underwriter's fee of $315,000, and portion of the LOC paid at closing of $84,000. The estimated total of $721,000 will be financed with the refunding and paid over the life of the bond. The Letter of Credit will cost the University approximately $560,000 per year which will be funded through general fund or auxiliaries debt service. See the attached analysis of the proposals.

ADMINISTRATIVE RECOMMENDATION

The proposed Board action has been reviewed and is recommended for Board approval.

_____Janice M. Stroh__________________________ ____March 12, 2008___
University Executive Officer **Date**

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

WHEREAS, the Board of Regents of Eastern Michigan University (the "Board") is a constitutional body corporate established pursuant to Article VIII, Section 6 of the Michigan Constitution of 1963, as amended, with general supervision of Eastern Michigan University (the "University") and the control and direction of all expenditures from the University's funds; and

WHEREAS, on August 29, 2001, and February 22, 2006, the Board issued and delivered its $41,395,000 principal amount of General Revenue Variable Rate Demand Refunding Bonds, Series 2001 (the "2001 Bonds") and its $85,680,000 principal amount of General Revenue and Refunding Bonds, Series 2006A (the "2006 Bonds"), respectively (collectively, the "Prior Bonds"); and

WHEREAS, the Prior Bonds were issued as variable rate bonds the interest rates on which change on a daily basis, secured by policies of bond insurance issued by Financial Guaranty Insurance Company ("FGIC") with respect to the 2001 Bonds and by XL Capital Assurance ("XL") with respect to the 2006 Bonds, with liquidity facilities now provided in each case by Dexia Credit Local; and

WHEREAS, as reported extensively in the financial media, the bond insurance industry has been very adversely affected by the crisis in the subprime mortgage market, to the extent that rating downgrades have occurred and are expected to continue, with XL and FGIC having already been downgraded by at least one rating category below their original "AAA" ratings and such downgrades have materially adversely affected the interest rates on the Prior Bonds, causing such rates to increase significantly; and

WHEREAS, upon the advice of its financial advisors and Bond Counsel and the recommendation of the University's Administration, the Board approves and adopts the recommendation of the Administration that the most economic and viable solution presently available to address the problems created by the bond insurer rating downgrades may be to remove the bond insurers as the credit enhancers of the Prior Bonds by refunding such bonds and replacing the insurance policies with letters of credit issued by a highly rated bank; and

WHEREAS, the refunding of the Prior Bonds will serve proper and appropriate public purposes.

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

1. The Board hereby authorizes the issuance, execution and delivery of refunding bonds of the Board in registered form in one or more series, to be designated GENERAL

REVENUE REFUNDING BONDS, SERIES 2008 (the “Refunding Bonds”), with the following terms to be determined by the Executive Vice President or the Vice President for Business and Finance of the University (each an “Authorized Officer”): additional or other series designations or descriptive terms of the Refunding Bonds; the aggregate principal amount not to exceed $135,000,000 (being the amount necessary to produce proceeds sufficient, together with other available funds, to implement the refunding, to pay costs incidental to the issuance of the Refunding Bonds, and to fund, if required, a reasonably required debt service reserve fund or funds); if not all, the particular Prior Bonds to be refunded; serial Bonds or term Bonds (which may be subject to redemption requirements), or both, with the first maturity not earlier than June 1, 2008, and the last maturity not later than December 31, 2050; no interest or interest at stated rates for the respective maturities with the highest yield (computed using the stated coupon and the stated original offering price) for any fixed rate maturity not to exceed 6.0% per annum; 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 6.0% per annum); interest at a variable rate of interest, with the variable rate of interest not to exceed the lesser of the maximum rate permitted by law or the maximum rate, if any, to be specified in the relevant Refunding Bond documents; redemption or call for purchase prior to maturity, including the times and prices with no redemption premium to exceed 3% of the principal amount being redeemed; time for payment of interest; denominations; manner of payment of principal and interest; terms of transfer, exchange, execution and authentication; issued in certificate or book entry only form; price and terms of sale to the Underwriter (with the Underwriter's discount, exclusive of original issue discount, not to exceed 0.5% of the principal amount of the Bonds) plus accrued interest, if any, from the dated date of the Bonds to the date of delivery thereof; terms of tender for purchase, if any, at the option of the holder thereof payable from available cash reserves of the University or from a letter of credit, line of credit or other liquidity device (the “Liquidity Device”) and all of the terms thereof, with any reimbursement obligation for draws under the Liquidity Device to be limited and not a general obligation of the Board, payable from and secured by a pledge of General Revenues (substantially as defined in the 2006 Bond Trust Indenture); `

2. The Refunding Bonds, and the obligations of the Board under any credit agreement or Liquidity Device, shall be limited and not general obligations of the Board payable from and secured, on a parity basis with all outstanding bonds of the Board, by a lien on the University's General Revenues or such components thereof and other funds as shall be determined by an Authorized Officer (individually and collectively, the "Security"). Except as otherwise determined by an Authorized Officer, the lien shall be on a parity basis with the liens on General Revenues securing previously issued outstanding bonds of the Board.

Except as specified in the Refunding Bonds or related documents, no recourse shall be had for the payment of the principal amount of or interest or premium on the Bonds, any credit agreement or Liquidity Device, or any claim based thereon against the State of Michigan, the Board or any officer or agent thereof, as individuals either directly or indirectly, nor shall the Refunding Bonds and interest with respect thereto, or any obligation of the Board in connection with a credit agreement or Liquidity Device, if any, become a lien on or be secured by any property, real, personal or fixed of the State of Michigan or the Board, other than the Security.

Any pledge of the Security, debt service reserves and other funds shall be valid and binding from the date of the issuance and delivery of the Refunding Bonds 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 other bonds, notes or debt obligations secured by a parity first lien on the Security) having a claim in tort, contract or otherwise against the Board, irrespective of whether such parties have notice of the lien.

3. The right is reserved to issue additional bonds, notes or other obligations payable from and secured on a parity basis with the Refunding Bonds from the Security, upon compliance with the terms and conditions as shall be set forth in the Refunding Bonds or related documents.

4. The Authorized Officers, jointly or severally, are hereby authorized and directed to negotiate for and select a credit enhancement provider (of bond insurance, letter of credit, surety bond or other credit facility with respect to payment of principal, interest and premium, if any, on the Refunding Bonds), and to execute and deliver a credit agreement relating thereto, with any reimbursement obligation to be a limited and not a general obligation of the Board, payable from and secured by a pledge of General Revenues; to select bond counsel, the underwriter (“Underwriter”) and the Trustee; to execute the Refunding Bonds by placing his or her facsimile signature thereon, and to deliver the Refunding Bonds to the Underwriter in exchange for the purchase price thereof; to cause preparation of a preliminary and a final Official Statement with respect to the Refunding Bonds, and to execute and deliver the final Official Statement, which the Underwriter is authorized to circulate and use in connection with the offering, marketing and sale of the Bonds; to perform all acts and deeds and to execute and deliver all instruments and documents, for and on behalf of the University required by this resolution, or necessary, expedient and proper in connection with the issuance, sale and delivery, and ongoing administration, of the Refunding Bonds, as contemplated hereby; and to execute and deliver, for and on behalf of the Board, a continuing disclosure undertaking with respect to the Refunding Bonds, in the form such officer deems appropriate.

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

I hereby certify that the attached is a true and complete copy of a resolution adopted by the Board of Regents of Eastern Michigan University at a ____________ meeting held on __________________, 2008.

I further certify as follows:

1. Present at the meeting were the following Board members: ____________________
____
____

Absent from the meeting were the following Board members: ________________________
____
____

2. The following members of the Board voted for adoption of the Resolution: _____
____
____

The following members of the Board voted against adoption of the Resolution: ________
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____

RESOLUTION DECLARED ADOPTED:

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Secretary to the Board of Regents of
Eastern Michigan University

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