

EXECUTIVE SUMMARY

ACTION ITEM: The University of Arizona (UA) requests authority to (i) sell System Revenue Refunding Bonds (Refunding SRBs) sufficient to refinance not exceeding \$25 million of debt service on the UA System Revenue Bonds, Series 1992A, 1998, 2002, 2003, 2004A and 2004B and pay the costs of issuance of the Refunding SRBs, (ii) sell Refunding Certificates of Participation (Refunding COPs) sufficient to refinance not exceeding \$22 million of debt service on the UA Certificates of Participation, Series 1999A, 1999B, 1999, 2000A, 2001A, 2001B, 2002A, 2002B, 2003A, 2003B, 2004A and 2004B and pay the costs of issuance of the Refunding COPs, and (iii) take related actions, enter into necessary agreements and execute necessary documents.

ISSUE

UA seeks Board authorization to (i) sell one or more series of fixed or variable interest rate Refunding SRBs sufficient to refinance not exceeding \$25 million of debt service on its System Revenue Bonds, Series 1992A, 1998, 2002, 2003, 2004A and 2004B and pay the costs of issuance of the Refunding SRBs and (ii) sell one or more series of fixed or variable interest rate Refunding COPs sufficient to refinance not exceeding \$22 million of debt service on its Certificates of Participation, Series 1999A, 1999B, 1999, 2000A, 2001A, 2001B, 2002A, 2002B, 2003A, 2003B, 2004A and 2004B and pay the costs of issuance of the Refunding COPs. In connection with these refinancings, UA seeks authorization to take all related actions and to enter into all necessary agreements and to execute all necessary documents related to the refinancings, including bond or certificate insurance, as applicable, reserve fund surety bonds and bond purchase, certificate purchase, depository trust, continuing disclosure, liquidity and interest rate exchange (swap) agreements.

BACKGROUND

UA currently has outstanding \$254,400,000 principal amount of its System Revenue Bonds and \$497,749,000 principal amount of its Certificates of Participation, all or a portion of the principal of and/or interest on which UA wishes to refinance through the issuance of Refunding SRBs and Refunding COPs, respectively, in order to achieve debt service savings or to schedule debt service or lease payments, as applicable, to better match anticipated funding sources and, in some or all cases, extend the financing term. UA believes that the current low interest rate environment is the most advantageous time to undertake such refinancings to restructure debt service and lease payments, as applicable, to enable UA to meet its payment obligations while minimizing the impact on its other cash flow needs.

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FINANCING PLAN

UA will monitor interest rates and, at an appropriate time or times, refinance the System Revenue Bonds and/or Certificates of Participation described above by selling one or more series of Refunding SRBs and Refunding COPs, as applicable, in amounts sufficient to pay or defease not exceeding \$25 million of debt service on its outstanding System Revenue Bonds and/or to pay or defease not exceeding \$22 million of debt service on its outstanding Certificates of Participation and to pay the costs of issuance of the Refunding SRBs and Refunding COPs. Timing for the issuance of the Refunding SRBs and Refunding COPs also will be affected by federal tax-exempt bond rules. UA expects that the Refunding SRBs and Refunding COPs of each series will mature over a period of not more than ten years later than the final maturity of the series of System Revenue Bonds or Certificates of Participation being refinanced. The Refunding SRBs will be issued under an additional Supplemental Resolution to the UA System Revenue Bond Resolution presently in effect. UA expects that the Refunding COPs will be issued under common or similar financing documents. The Certificates of Participation to be refinanced may be combined into financing packages, to the extent practicable, both to achieve size efficiencies in issuance costs and to provide diversified collateral, which is often more attractive to Certificate of Participation investors.

The financing packages may be issued in series, as follows:

1. *Variable Rate Refunding SRBs or Refunding COPs.* Depending upon market conditions at the time of sale, UA may fund all or a portion of the refinancings through variable rate series. UA has to date, had a favorable experience with variable rate Certificates of Participation previously issued for various projects. In a variable rate mode, the Refunding SRBs or Refunding COPs can be prepaid at any time without penalty.
2. *Fixed Rate Refunding SRBs or Refunding COPs.* Any remaining Refunding SRBs and Refunding COPs will be issued as conventional fixed rate instruments with debt retirement adapted to the funding sources for the projects being refinanced.

UA will be called upon to enter into various agreements in connection with the Refunding SRBs and Refunding COPs, such as bond insurance for the Refunding SRBs, certificate insurance for the Refunding COPs, reserve fund surety bonds, bond purchase, certificate purchase and liquidity agreement and, if UA decided either presently or in the future to increase or decrease its variable rate component of the variable rate Refunding SRBs or Refunding COPs, interest rate exchange (swap) agreements with counterparties.

The Refunding SRBs will be payable solely from Gross Revenue of the UA System of Building Facilities, on a parity with UA's outstanding System Revenue Bonds. Payments

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under any swap agreement also would be payable solely from Gross Revenues. The Refunding COPs will not be payable from any pledged source of funds, but will be payable from annually appropriated lease payments. UA expects to pay the Refunding SRBs and the Refunding COPs from the same sources currently being used to pay the System Revenue Bonds and Certificates of Participations to be refunded.

Marketing of Refunding SRBs and Refunding COPs; Timing. All Refunding SRBs and Refunding COPs will be sold at current market rates at the time of pricing. Fixed rate Refunding SRBs and Refunding COPs will not exceed a yield of 7.5% per annum and initial rates on variable rate Refunding SRBs and Refunding COPs will not exceed 5.0% per annum, although the rate later fluctuates, but not above levels prescribed in the Supplemental Resolution or Refunding COPs financing documents, as applicable. UA expects that the first series of Refunding SRBs and first series of Refunding COPs will be marketed and sold by the end of calendar year 2005.

UA intends to use its current bond counsel, Squire, Sanders & Dempsey, L.L.P., and its current financial advisor, RBC Dain Rauscher, Inc., in conjunction with the proposed refinancings. The Refunding SRBs and the Refunding COPs will be marketed and sold through a negotiated basis to one or more of the investment banking firms previously selected by UA through a competitive process.

The action being requested would (i) adopt the Supplemental Resolution for the Refunding SRBs and (ii) adopt a resolution for the Refunding COPs and, thereby, authorize UA to execute these refinancings within the parameters set by the Board.

RECOMMENDATION/CONCLUSION

RESOLVED: That the University of Arizona be, and hereby is, authorized to (i) sell one or more series of System Revenue Refunding Bonds in amounts to produce sufficient proceeds to refinance not exceeding \$25 million of the principal of and/or interest on its System Revenue Bonds, Series 1992A, 1998, 2002, 2003, 2004A and 2004B and to pay costs of issuance of the System Revenue Refunding Bonds, (ii) sell one or more series of Refunding Certificates of Participation in amounts to produce sufficient proceeds to refinance not exceeding \$22 million of the principal of and/or interest on its Certificates of Participation, Series 1999A, 1999B, 1999, 2000A, 2001A, 2001B, 2002A, 2002B, 2003A, 2003B, 2004A and 2004B and pay the costs of issuance of the Refunding Certificates of Participation, and (iii) take all related actions, enter into all necessary agreements and execute all necessary documents, as provided in the Supplemental Resolution relating to the System Revenue Refunding Bonds or the resolution relating to the Refunding Certificates of Participation, reviewed by University Counsel.