SOUTHERN ILLINOIS UNIVERSITY
DEBT POLICY

ADOPTED BY THE BOARD OF TRUSTEES FEBRUARY 11, 2010

Southern Illinois University
Debt Policy

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SOUTHERN ILLINOIS UNIVERSITY
DEBT POLICY

A. ***Objectives:***

- Prudent utilization of debt to provide a low cost source of capital to fund long-term capital investments to achieve the University's mission and strategic objectives.

- Manage the University's overall debt level to maintain the highest acceptable credit rating with appropriate access to capital. The minimum acceptable underlying rating for a University issue is the single "A" category by the major rating agencies.

- Limit risk within the University debt portfolio by balancing the goal of attaining the lowest cost of capital with the goal of managing interest rate risk.

- Manage outstanding debt over time to achieve a low cost of capital and to take advantage of interest rate cycles and refunding opportunities.

- Assure projects financed have a feasible plan of repayment and that secondary pledges are utilized prudently.

B. ***Review of Authority***

1. Constitutional Authority

Article IX, Section 9 of the Constitution of the State of Illinois permits State colleges and universities to issue bonds or other evidences of indebtedness for such purposes and in such amounts as may be authorized by law, but such debt may not be secured by the full faith and credit or tax revenue of the State and cannot be repaid, directly or indirectly, from tax revenue.

2. Revenue Bonds

The Board is authorized to issue revenue bonds pursuant to the Southern Illinois University Revenue Bond Act (110 ILCS 525/1 et seq.) (the "Revenue Bond Act") for the purpose of acquiring "projects" as defined in Section 525/2(5) and to refund bonds as provided in Section 525/4 (B) and (C). The sources of payment of such revenue bonds, as provided by the Revenue Bond Act and as authorized by resolution of the Board of Trustees, are net revenues of the project or any group of projects. The Revenue Bond

Act authorizes the pledge of tuition and fees as additional security for revenue bonds.

In general, revenue bonds may be utilized for the purpose of acquiring, constructing, and equipping revenue-generating projects or for refunding previously issued revenue bonds.

3. *Certificates of Participation*

Pursuant to the provisions of the State University Certificates of Participation Act (110 ILCS 73) (the "COPS Act") the Board is authorized to enter into financing agreements for the purpose of financing capital improvements through the issuance of certificates of participation. The COPS Act limits Southern Illinois University's maximum annual debt service on all outstanding certificates of participation to $20,000,000. The certificates of participation represent an interest in the installment payments to be made over time by the Board pursuant to an agreement to purchase such capital improvement. The certificates of participation are issued by a trustee under an indenture, which provides security for the certificates of participation.

In general, certificates of participation are used for acquiring, constructing, and equipping non-revenue producing projects, such as infrastructure, administrative or academic projects, and for the purpose of refunding previously issued certificates of participation.

4. *Public University Energy Conservation Financing*

The Public University Energy Conservation Act (110 ILCS 62/1 et seq.) (the "Energy Conservation Act") authorizes the University to enter into a "guaranteed energy savings contract" with a "qualified provider" to provide "energy conservation measures" (as such terms are defined in the Energy Conservation Act). The Energy Conservation Act contains the methods for obtaining and evaluating proposals and awarding the contract. Under the guaranteed contract, the provider guarantees the University that the savings under the contract will meet or exceed the costs of the conservation measures within twenty years of the date of final installation of the measures.

Section 110 ILCS 62/25 provides that the University may issue debt certificates to finance an installment payment contract or lease purchase agreement for the purchase and installation of the energy conservation measures.

C. ***Approvals & Other Considerations***

1. *Illinois Procurement Code*

The Illinois Procurement Code (30 ILCS 500) contains limitation provisions which apply both to the issuance of revenue bonds and to the issuance of installment contract certificates of participation. Service providers instrumental in the issuance of debt must be approved through a competitive request for proposal (RFP) process. Certain participants may be exempt from the procurement process.

2. *Illinois Board of Higher Education*

The Board of Higher Education Act (110 ILCS 205/0.01 et seq.) requires that the Board submit its plan for capital improvement of non-instructional facilities to the Illinois Board of Higher Education (the "IBHE") for approval before final commitments are made. The IBHE shall determine whether or not any project submitted for approval is consistent with the master plan for higher education and with instructional buildings that are provided for therein.

3. *Legislative Audit Commission Guidelines*

The Legislative Audit Guidelines limit the purpose for which revenue bonds may be issued, the uses of funds, the sources of payment and the accumulation of excess reserves.

Plans for capital improvement of non-instructional facilities will be submitted to the Illinois Board of Higher Education (the "IBHE") for approval. Non-instructional facilities include dormitories, stadiums, student centers, recreational facilities, and parking lots.

4. *Commission on Government Forecasting and Accountability*

The State University Certificates of Participation Act (110 ILCS 73) requires the Board to submit its plan for financing capital improvements using certificates of participation to the Commission on Government Forecasting and Accountability for approval prior to issuance of debt.

D. ***Overview of Process***

1. *Identify & Prioritize Projects*

Debt financed projects will be identified as early as possible. Projects are prioritized by the President upon recommendation by the Chancellors. All potential debt financed projects under consideration for the next several years are discussed as to their budget, timeline, and priority.

2. *Internal Approval Process*

The Chancellors approve and bring forward to the President projects on a campus-by-campus and programmatic basis. The President recommends project financing and brings forward to the Board of Trustees for project financing approval.

3. *Authorization to Issue Debt*

Bonds and Certificates of Participation are authorized by resolution of the Board of Trustees prior to issuance.

E. ***Establish Debt Capacity Parameters***

It is the objective of the University to maintain no less than a single “A” category underlying rating for all debt at the time of issue. Core financial ratios that are strongly correlated with single “A” rated higher education peers will be monitored to ensure central oversight of University-wide leverage levels. The following three ratios will be monitored and are strongly correlated to the rating level:

1. Expendable Financial Resources to Direct Debt – Measures coverage of direct debt by financial resources that are ultimately expendable.
2. Operating Margin – Indicates the excess margin (or deficit) by which annual revenues cover expenses.
3. Debt Service Coverage – Measures actual margin of protection for annual debt service payments from annual operations.

F. ***Debt Compliance and Reporting Requirements***

1. *Continuing Disclosure Compliance*

The University will meet the ongoing disclosure requirements in accordance with SEC Rule 15c2-12. The University will submit all reporting required with respect to outstanding bonds or certificates of participation to which such Rule is applicable.

2. *Arbitrage Rebate Compliance*

The University will comply with arbitrage requirements on invested tax-exempt bond proceeds. Arbitrage calculations will be performed as needed.

3. *Certificates of Participation Compliance*

The University will submit a copy of its annual budget and report the status of all outstanding certificates of participation annually to the Commission on Government Forecasting and Accountability.

G. ***Investment of Bond Proceeds***

1. Taxable

Bond proceeds of a taxable issue may be invested in accordance with the University's Investment Policy for operating funds unless further restricted by a bond insurance policy.

2. Tax-Exempt

Bond proceeds of a tax-exempt issue will be invested in accordance with the Internal Revenue Service rules for tax-exempt debt unless further restricted by a bond insurance policy. The Internal Revenue Service rules that apply to each tax-exempt debt issuance are typically summarized in the respective Tax Compliance Certificate and Agreement.

H. ***Debt Management Strategies***

1. Fixed versus Variable Rate Allocation

Variable rate debt can provide a lower cost of capital, but introduces additional risks. The University will carefully examine the risks and rewards of variable rate exposure. Variable rate debt should only be used as an integral part of a long term strategy and should not exceed twenty percent of the total debt portfolio or 50% of total operating cash.

2. Methods of Sale

The University will consider various methods of sale. Negotiated, competitive, private placement, and bank qualified sales will be considered on an individual transaction basis. Issue size and complexity will be factors in determining which method of sale to pursue.

3. *Purchase of Insurance or Credit Enhancement*

The University will evaluate insurance and credit enhancement opportunities and utilize them if they are deemed cost effective.

4. *Refunding Opportunities*

The University will monitor its debt portfolio for refunding and/or restructuring opportunities. For a stand-alone refunding for savings, the University will generally enter into a transaction that produces at least a 3% present value savings (based upon the amount of callable bonds or certificates). Advance refunding transactions must weigh the current opportunity against possible future refunding opportunities.

5. *Selection of Underwriters and Participants on the Selling Team*

The University will utilize a request for proposal process from time to time to select senior and co-managing underwriters. The process will also be utilized to pre-qualify a roster of minority and regional firms for participation in the underwriting team when debt is issued. The University will reserve the right to utilize a competitive process for any single debt issue.

Attribution

This policy was developed, in part, and incorporates language, based upon the University of Illinois Debt Policy. Because legal structure and debt issuance are governed by state and federal laws and statues, this policy may look very similar to other institutions.