Approved by the Board of Trustees
December 2, 2011

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Board Meeting
December 2, 2011

ROLL CALL

REVISE POLICY FOR THE ISSUANCE OF DEBT

Action: Approve the Attached Revised Policy Statement for the Governance of the Debt Issuance Function

Funding: None Required

At its March 11, 2004 meeting, the Board approved the Policy for the Issuance of Debt. Since the adoption of the Debt Policy, (110 ILCS 73/) State University Certificates of Participation Act became law. While the Board has not issued any certificates of participation since the law was enacted, it is necessary to update the Debt Policy to reflect the new law. In addition, the Debt Policy was revised to clarify the financing authority granted under (110 ILCS 62/) Public University Energy Conservation Act and to clarify the Board approval in the debt issuance process.

The Vice President/Chief Financial Officer and Comptroller recommends the adoption of the attached revised policy to govern debt issuance, debt refunding and debt portfolio management activities.

The Board action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes, The*

General Rules Concerning University Organization and Procedure, and Board of Trustees policies and directives.

The President of the University concurs.

University of Illinois Debt Policy
December 2, 2011

A. Objectives:

- Prudent utilization of debt to provide a low cost source of capital to fund long-term capital investments in order to achieve the University's mission and strategic objectives.
- Manage the University's overall debt level in order to provide appropriate access to capital and to maintain a credit rating deemed acceptable by the Board. 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. Legal Authority for Financings

University financings will conform to the authority granted by Illinois and Federal laws. Current Illinois and Federal laws provide the University with the following financing authority:

1. Revenue Bonds

The Board is authorized to issue revenue bonds pursuant to the University of Illinois Revenue Bond Financing Act for Auxiliary Services (the "Revenue Bond Act") (110 ILCS 405/1 et seq.) for the purposes stated in Section 1 (A) thereof as to projects and in Section 5.1 with respect to refunding. The sources of payment of such revenue bonds, as provided by the Revenue Bond Act, are net revenues of the project or the project's system. 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.

2. *Certificates of Participation*

Prior to June 22, 2009, the Board issued Certificates of Participation under the authority granted by the University of Illinois Act (the "U of I Act") (110 ILCS 305/0.01 et seq.). Pursuant to the provisions of the U of I Act, the Board is authorized in Section 1 thereof "to contract and be contracted with" and "to acquire, hold and convey real and personal property." Under the provision of the U of I Act, the Board has entered into installment contracts providing for the acquisition of various improvements by the Board paid for from the proceeds of certificates of participation representing interests in the payments to be made over time by the Board as consideration for such improvements. The certificates of participation are issued by a trustee under an indenture, which provides for the issuance of a security for the certificates of participation.

The State University Certificates of Participation Act (the "Certificates of Participation Act") (110 ILCS 73/1 et seq.) became law on June 22, 2009. Pursuant to the provisions of the Certificates of Participation Act, the Board is authorized "to enter into financing agreements in connection with the financing of capital improvements (including technology or other related improvements) by selling certificates of participation in installment made under such financing agreements."

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.

3. *Interest Rate Swaps and Derivatives*

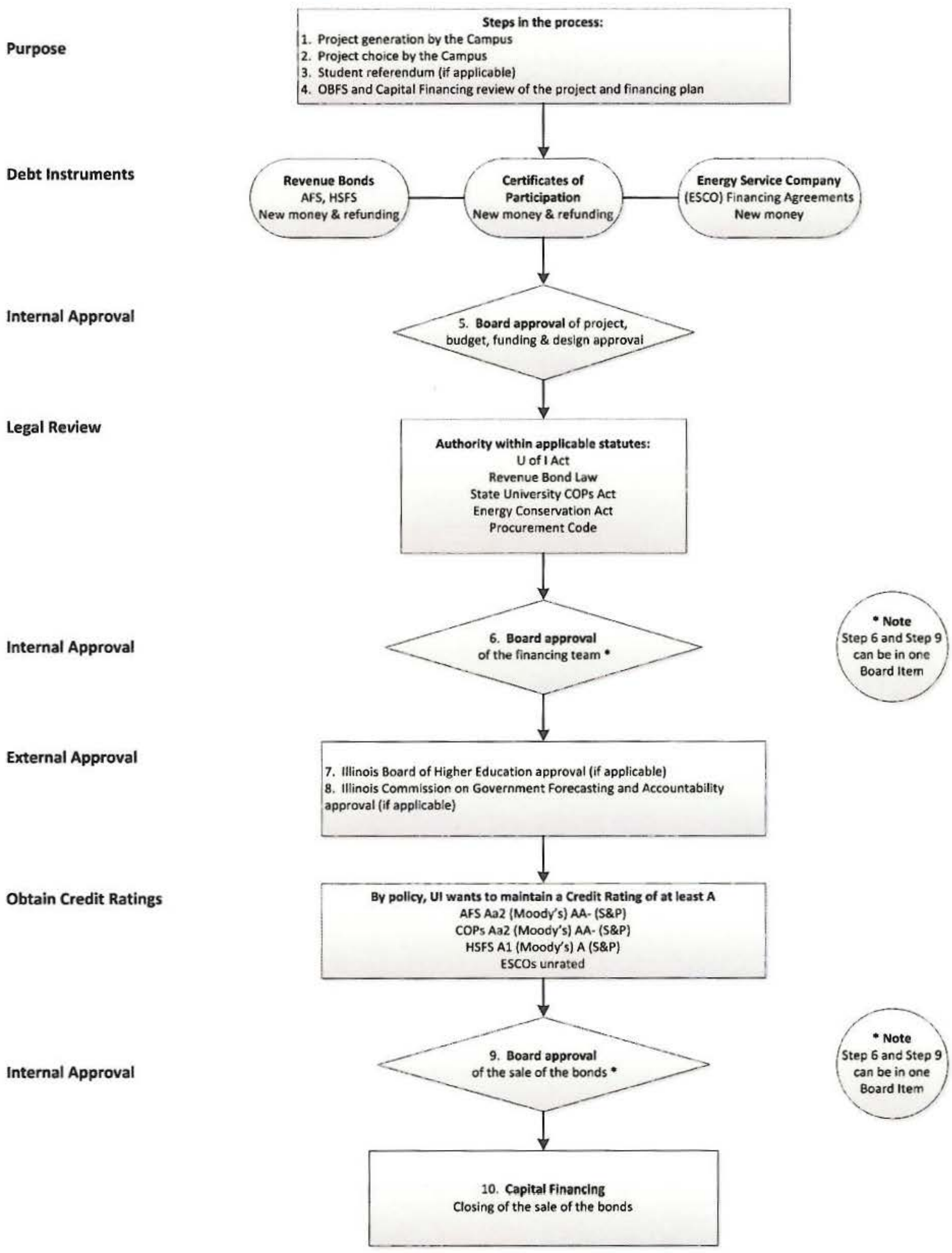
Interest rate swaps and other derivative products are authorized pursuant to section 7 of the Bond Authorization Act (30 ILCS 305/7). Such agreements or contracts include, without limitation, interest rate swap agreements, forward payment conversion agreements, or contracts providing for payments based on levels of or changes in interest rates, to exchange cash flows or a series of payment, or to hedge payment, rate spread or similar exposure.

In general, interest rate swaps are utilized to reduce the cost and/or risk of existing or planned University debt. By using swaps in a prudent manner, the University can take advantage of market opportunities to reduce debt service cost and/or interest rate risk. The use of swaps must be tied directly to University debt instruments. Swaps may not be utilized for speculative purposes. Master swap agreements entered into by the University shall contain terms and conditions as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, as amended.

4. *Public University Energy Conservation Financings*

The Public University Energy Conservation Act (the "Energy Conservation Act") (110 ILCS 62/1 et seq.) authorizes the University to enter into a guaranteed energy savings contract with a qualified provider to provide energy conservation measures. The Energy Conservation Act authorizes the University to enter into an installment payment contract or lease purchase agreement with a qualified provider or other third party for the financing of the energy conservation measures. The University may issue certificates evidencing the indebtedness. 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 completing the financed improvements.

Overview of the Process to Approve Debt Financed Capital Projects



C. *Debt Capacity*

Debt capacity can be estimated using bond ratings as the principal determinant. The procedure is not exact primarily because of the subjective process used by the rating agencies. The estimation process involves testing the sensitivity of key financial ratios (quantitative analysis) and simultaneously considering how non-financial factors (qualitative analysis) support the overall bond rating. 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.

D. *Debt Compliance and Reporting*

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.

E. *Debt Management Strategies*

1. *Fixed versus variable rate allocation*
Variable rate debt can provide a lower cost of capital, but introduces additional risks. To limit this risk, variable rate debt will be no more than 40% of the overall debt. Variable rate exposure may be achieved directly through debt issuance or indirectly by entering an interest rate swap contract.

2. *Methods of Sale*
The University will consider various methods of sale. Negotiated and competitive 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 Targets*
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. This request will serve to select lead underwriters for University debt issuance for a specified contract period. The process will also be utilized to pre-qualify a roster of minority, regional and national 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.

Overview of the general process followed when structuring a financing