

**Rating Update: MOODY'S CONFIRMS SOUTHERN ILLINOIS
UNIVERSITY'S A2 RATINGS; OUTLOOK IS STABLE**

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RATING ACTION IMPACTS \$324 MILLION RATED DEBT OUTSTANDING

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY
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Opinion

NEW YORK, April 05, 2012 --Moody's Investors Service has confirmed Southern Illinois University's (SIU or the university) A2 ratings on its Auxiliary Facility System Revenue Bonds, Certificates of Participation, and Medical Facilities Revenue Bonds (see RATED DEBT). The long-term outlook is stable.

The university's ratings were placed on Watchlist for possible downgrade on January 8, 2012 following the downgrade of the State of Illinois' General Obligation rating on January 6, 2012 to A2/stable from A1/negative. The Watchlist action reflected significant dependence on the State for operating funds under a challenging budget environment and extensive appropriation payment delays placing material pressure on the liquidity of the Illinois public universities.

The confirmation of SIU's A2 rating despite the state's downgrade reflects the university's market position as the second largest public university with stable enrollment, strong balance sheet coverage of debt and operations and solid debt service coverage from pledged revenues, as well as an ability to absorb any reductions in or significant delays in state funding.

SUMMARY RATING RATIONALE

The A2 rating reflects SIU's market position as the second largest public university in the state, healthy operating margins despite declines and delays in state appropriations, and strong debt service coverage. The A2 rating also incorporates SIU's relatively high dependence on state appropriations (at 39.5% of total operating revenue) coupled with the weak credit profile of the State of Illinois (rated A2, stable).

STRENGTHS

*Second largest public university in Illinois with diverse undergraduate, graduate and professional programs, including medical, dental, law, business and nursing programs. Total full-time equivalent (FTE) enrollment was 28,593 in fall 2011, with 18% of FTE at the graduate level and 15% of freshmen matriculants coming from outside Illinois.

*Consistently strong and improving operating margin which averaged 4.3% from FY 2009-FY 2011 based on FY 2011 draft financials, despite delayed state appropriations. The operating cash flow margin was 11.2% and debt service coverage was a healthy 3.8 times in FY 2011.

*Growing financial resources provide healthy coverage of debt and operations. Expendable financial resources were \$257 million in FY 2011 based on draft financials, providing 0.79 times and 0.26 times coverage of pro-forma debt and operations, respectively. SIU plans to issue approximately \$83 million in additional debt by FY 2015.

*Capable management that has successfully managed delays in state appropriations over last several years through extensive expense cutting, reorganization and planning.

CHALLENGES

*Cuts and severe delays in state appropriations, which represented 39.5% of SIU's FY2011 operating revenues

(including on behalf payments) per Moody's calculation. State appropriations from Illinois (rated A2, stable) have stabilized, but there have been delays in appropriation payments due to the state's own liquidity problems.

*Weak demographics in the southern Illinois region and in the state have led to enrollment declines at the Carbondale campus from fall 2008 to fall 2011, contributing to stagnant total enrollment at the university. Demand is strong for the Edwardsville campus, which benefits from its proximity to St. Louis, MO.

*Low monthly days cash on hand of 52 days at FYE 2011, under two months of liquid funds available, on a total expense base of \$984 million based on draft financials. In FY 2010, SIU had similarly thin liquidity with 50 monthly days cash on hand, well below the 111.6 days FY 2010 median for A2-rated public universities.

*Exposure to health care sector through SIU's medical practice plan and regional clinics, though health care revenue represents only 5% of total operating revenue.

*Significant amount of turnover in senior management as well as many lost positions due to staff cuts, however these reductions have allowed SIU to focus on increased efficiencies and maintain healthy operating margins.

DETAILED CREDIT DISCUSSION

LEGAL SECURITY: The Auxiliary Facilities System Revenue Bonds are secured by a pledge of and lien on net revenues of the auxiliary system as well as pledged tuition in an amount not to exceed MADS (subject to prior payment of operating and maintenance expenses of the System), the bond and interest sinking fund account, and the repair and replacement reserve account. The bond resolution requires that debt service coverage on a cash basis be at least 120 percent of maximum annual debt service (MADS). There is a debt service reserve fund for the Series 2001A, 1999A, 1997A and 1993A bonds. For FY 2011, total revenues pledged were \$58 million, providing 2.3 times coverage of the \$25.3 million MADS on the AFS bonds.

The Certificates of Participation (COPs) are secured by the Board's covenant to include in its annual operating budget appropriation requests to the Illinois General Assembly a request for funds sufficient to pay debt service that are payable from state appropriations. Further, the Board has covenanted to include in the annual university budget an amount sufficient to cover the installment payments (principal and interest) from any legally available non-appropriated funds. The COP's are payable from the university's broad budget, and the obligation to pay can only be terminated in the event that the university does not receive sufficient state appropriations and does not have other legally available funds.

The Medical Facility System (MFS) revenue bonds are payable from and secured by a pledge of and lien on the net revenues of the MFS, pledged tuition (after payment of operations and maintenance for the AFS and debt service on the AFS bonds not to exceed MADS, and operating and maintenance expenses of the MFS), and the bond and interest sinking fund account. The bond resolution requires that debt service coverage on the cash basis (net revenues plus pledged tuition) be at least 200% of annual debt service and that net revenues be at least 100% of the annual debt service requirement in each fiscal year. For FY 2011, total revenues pledged were \$138.5 million, providing 70 times coverage of \$1.99 million MADS. The bond resolution also requires the Treasurer to credit funds remaining in the revenue fund (at least equal to 10% of MADS) into a separate account for Medical Facilities Repair and Replacement Reserve.

DEBT STRUCTURE: All of the university's debt is fixed rate.

DEBT-RELATED INTEREST RATE DERIVATIVES: None.

UPDATES/RECENT DEVELOPMENTS

The State of Illinois (A2/stable) continues to experience considerable operating stress driving continued payment delays for Illinois public universities, including SIU. Because of the state's liquidity stress, SIU has had to budget prudently, implement expense cuts and adjust its own budgeting practices to weather significant timing delays of state appropriations. To compensate for state funding cuts, SIU has increased tuition costs - net tuition revenue per student has increased nearly 40% over the past five years. SIU's relatively low monthly liquidity coverage of expenses, at 52 monthly days cash on hand, is a credit weakness given the state's payment delays. SIU received all of its FY 2011 appropriations by December 2011 and as of 1/31/2012 had received 41% of budgeted FY2012 appropriations, favorable compared to 22% of FY 2011 appropriations for the same time last year. Management expects cash flow from the state to remain sufficient to support operating needs and has budgeted expenditures and forecast unrestricted cash balances for the remainder of calendar year 2012.

For the Auxiliary Facility System (AFS) Bonds, a closed system means that the AFS can build up reserves. Based on the draft FY 2011 audit, unrestricted net assets for the AFS system was \$17.7million. As of June 30, 2011, maximum annual debt service coverage was 230% per the draft audit. The Medical Facilities System saw a \$3.3 million increase in net assets in FY 2011.

Moody's currently maintains an A2/stable general obligation rating for State of Illinois. Illinois' general obligation bond rating was lowered to A2 from A1 on January 6, 2012 because of the state's failure last year to implement solutions to its largest credit challenges, severe pension under-funding and chronic bill-payment delays. It remains to be seen whether the state has the political will to impose new pension reforms and other measures that restore fiscal strength in the near term. The stable outlook acknowledges an ability to reach consensus on difficult decisions, such as temporary tax increases enacted early in 2011 that allowed Illinois to end reliance on deficit bonds to finance annual pension contributions. Sovereign revenue and spending powers, as well as state legal provisions giving payment of G.O. debt service priority over other expenditures, also help support Illinois' stable outlook. For more information on the State of Illinois, please see Moody's rating report dated March 07, 2012.

Outlook

The stable outlook reflects Moody's expectation of continued strong balance sheet coverage of debt and operations, net tuition revenue increases given increased student enrollment at SIU-Edwardsville and increased marketing for SIU-Carbondale; and the stable outlook of the State of Illinois (rated A2, stable).

WHAT COULD MAKE THE RATING GO UP

Improvement in the state's economy and operating support for the university; growth in student enrollment and net tuition revenues; increased monthly liquidity; greater revenue diversity, including research grants and gift revenue

WHAT COULD MAKE THE RATING GO DOWN

Further downgrade of the State of Illinois leading to deterioration of state operating support or even longer payment delays; operating margin decline or decline in net tuition revenue; sustained enrollment declines; substantial decline in balance sheet cushion or significant debt issuance without commensurate financial resource growth

KEY INDICATORS (FY 2010 financial data, fall 2011 enrollment data)

Full-Time Equivalent (FTE) Enrollment: 28,593 students

Primary Selectivity: 56.6%

Primary Matriculation: 36%

Net Tuition per Student: \$8,601

Educational Expenses per Student: \$27,775

Average Gifts per Student: \$398

Total Cash and Investments: \$201.4 million

Total Direct Debt: \$314.6 million

Total Comprehensive Debt: \$406.6 million

Expendable Financial Resources-to-Direct Debt: 0.59 times

Expendable Financial Resources-to-Operations: 0.2 times

Monthly Days Cash on Hand: 49.7 days

Total Operating Revenue: \$1 billion

Operating Cash Flow Margin: 9.5%

Three-Year Average Debt Service Coverage: 3.08 times

Reliance on Student Charges (Net Tuition, Fees, and Auxiliary Revenues): 35.2%

Reliance on State Appropriations Revenue (including on-behalf payments): 39.9%

State of Illinois Rating: A2, Stable outlook

* Comprehensive Debt includes direct debt, operating leases, and pension obligation, if applicable.

RATED DEBT:

Housing and Auxiliary Facilities Revenue Bonds, Series 2012A: A2

Housing and Auxiliary Facilities Revenue Bonds, Series 2001A, 2004A: underlying A2; insured by Ambac, whose rating was withdrawn

Housing and Auxiliary Facilities Revenue Bonds, Series 1993A, 1997A, 1999A, 2006A: underlying A2; insured by National Public Finance Guarantee (formerly MBIA of Illinois), whose current financial strength rating is Baa2 with a negative outlook

Housing and Auxiliary Facilities Revenue Bonds, Series 2003A: underlying A2; insured by FGIC, whose rating was withdrawn

Housing and Auxiliary Facilities Revenue Bonds, Series 2008A and 2009A: underlying A2; insured by Assured Guaranty, whose current financial strength rating is Aa3 with ratings under review for possible downgrade.

Medical Facilities Revenue Bonds, Series 2005: underlying A2; insured by Ambac, whose rating was withdrawn

Certificates of Participation Series 2002 and 2004A: underlying A2; insured by Ambac, whose rating was withdrawn

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The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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