

APPENDIX D

Issuance of UNC System Commercial Paper Bonds – North Carolina State University/The University of North Carolina at Chapel Hill

In October 2001, the Board of Governors authorized North Carolina State University and the University of North Carolina at Chapel Hill to implement a commercial paper program through the periodic issuance of tax-exempt commercial paper bonds. The current maximum authorized borrowing amount is established at \$240 million. Currently, UNC-Chapel Hill and North Carolina State University have outstanding balances of \$110 million and \$6 million, respectively.

North Carolina State University and the University of North Carolina at Chapel Hill have benefited from the Commercial Paper Program and, based on cash-flow analyses, now request that the maximum authorized borrowing amount be increased to \$500 million. The new maximum amounts will be \$100 million (compared to the current \$60 million) for North Carolina State University and \$400 million (compared to the current \$180 million) for UNC-Chapel Hill. These amounts are based on projections of need from each institution's Capital Improvement Program.

Commercial paper is short-term, unsecured debt issued in the form of promissory notes, and presents an alternative to borrowing from banks. A commercial paper program provides the issuer access to a flexible, low cost source of capital to provide bridge financing for projects. The program is available only to fund projects on an interim basis previously approved by the Board and the General Assembly up to the authorized maximum amount. The additional bonds would be issued by the Board of Governors but would be an obligation of the constituent institution secured by available funds excluding state appropriations, tuition, and restricted gifts. Funds would be drawn on an as-needed basis for capital expenditures. The program would be repaid with proceeds from a long-term bond issue, gift receipts, or other sources.

The Commercial Paper Program has allowed North Carolina State University and UNC-Chapel Hill to issue long-term debt less frequently than in the past and has provided greater flexibility over the timing of bond issues. The less frequent issuance of bonds reduces the costs of issuance and achieves more attractive debt service costs. Tax-exempt commercial paper rates are often several percentage points lower than commercial bank loans.

It is recommended that the following Resolution be adopted and that the Vice President for Finance be authorized to issue bonds as needed to carry out the Commercial Paper Program up to a maximum of an additional \$360 million.

AN AMENDED AND RESTATED RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF BONDS DESIGNATED "UNIVERSITY OF NORTH CAROLINA SYSTEM COMMERCIAL PAPER BONDS (UNC AT CHAPEL HILL/NC STATE)," AS SPECIAL OBLIGATIONS OF THE BOARD PAYABLE FROM THE REVENUES PLEDGED THEREFOR; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SUCH BONDS; PROVIDING FOR THE RIGHTS OF THE HOLDERS THEREOF; AND DETERMINING AND PROVIDING VARIOUS MATTERS RELATED TO THE AUTHORIZATION ISSUANCE, SALE, DELIVERY AND SECURITY OF SUCH BONDS.