

APPENDIX H

Authorization to Enter Into a Swap Agreement – North Carolina State University

As part of its debt management plan, North Carolina State University expects to request authority from the Board of Governors to issue \$73,000,000 of special obligation bonds in 2006 to finance capital projects. These bonds would provide funding totaling \$23,500,000 for projects that have previously been approved by the Board and the General Assembly, as well as \$49,500,000 for additional projects included in the Board's self-liquidating package pending approval in the 2005 General Assembly. While interest rates have risen during the last few months, overall interest rates remain at very attractive levels and NC State has requested that the Board enter into financial arrangements that will secure these attractive rates for the bonds when issued. This objective would be met through the use of an Interest Rate Swap Agreement.

NC State proposes that the Board authorize the Vice President for Finance and the Senior Associate Vice President for Finance to negotiate the terms of an Interest Rate Swap Agreement that would be entered into in the coming months, but that would not require payments until the approximate time the bonds described above are to be issued. Under the terms of the Interest Rate Swap Agreement, the Board would agree to pay a fixed rate to a financial institution on an amount corresponding to the amount of bonds expected to be issued, and the financial institution would agree to pay the Board a variable rate based upon the same amount. The bonds would be issued in 2006 as variable rate obligations, bearing an interest rate that would approximate the variable rate payments under the Interest Rate Swap Agreement. The use of this technique will enable the Board to "lock in" an interest rate for the bonds that reflects today's very attractive rates. The interest rate used to compute the amounts payable by the Board under an Interest Rate Swap Agreement would not exceed 5.90%, including any premium over actual rates available in today's markets.

It is recommended that the following resolution be approved authorizing the Vice President for Finance and the Senior Associate Vice President for Finance to negotiate the terms and enter into Interest Rate Swap Agreements with respect to the bonds proposed to be issued for NC State in 2006. An agreement with respect to bonds for projects already authorized by the General Assembly would be entered into when due diligence reveals it is in the best interest of the University and the State to do so. Any Swap Agreement with respect to bonds for projects pending legislative approval would be entered only after legislative authorization by the 2005 General Assembly and when due diligence reveals it is in the best interest of the University and the State to do so.

**RESOLUTION OF THE BOARD OF GOVERNORS OF THE UNIVERSITY OF
NORTH CAROLINA AUTHORIZING THE BOARD TO ENTER INTO AN
INTEREST RATE SWAP AGREEMENT IN CONNECTION WITH THE
PROPOSED ISSUANCE OF GENERAL REVENUE BONDS TO FUND SPECIAL
OBLIGATION BOND PROJECTS AT NORTH CAROLINA STATE
UNIVERSITY AT RALEIGH**