

Sale of Revenue Bonds – University of North Carolina Hospitals at Chapel Hill

The University of North Carolina Health Care System, on behalf of University of North Carolina Hospitals at Chapel Hill, requests that the Board of Governors issue revenue bonds with a principal amount not to exceed \$50,000,000 to finance (1) the costs of constructing and equipping capital improvement projects previously approved by the Board of Governors and the North Carolina General Assembly as detailed below; and (2) providing for the costs incurred in connection with the issuance of the 2010 Bonds. The 2010 Bonds may be issued in one or more series of bonds, including any combination of tax-exempt bonds, taxable “Build America Bonds” and other taxable bonds as the President of the University, or his designee, in consultation with the appropriate officers at UNC Hospitals, determine to be in the best interest of the University.

Build America Bonds were authorized by Congress in 2009 as part of the Federal Stimulus program (ARRA) to benefit issuers of municipal bonds. Qualifying issuers of municipal debt are permitted to issue taxable bonds and receive a subsidy payment from the Federal government equal to 35% of the interest cost. To be eligible, projects must meet all of the requirements of tax exempt debt.

The bond proceeds would be used to pay the cost of the expansion, renovation and equipping the Ambulatory Care Center to add new operating rooms, pre- and post-operative space and other support space and the acquisition, construction and equipping of a new imaging and outpatient clinic and associated parking facilities.

UNC Hospitals is currently rated Aa3 and AA- by Moody’s Investor Service and Standard & Poor’s, respectively. UNC Hospitals was recently reviewed by Moody's and S&P in June of 2010 and both agencies affirmed the credit ratings at the Aa3/AA- level. After issuance of these bonds, it is expected that UNC Hospitals would maintain its Aa3/AA- rating.

UNC Hospital's ability to cover the debt service on the revenue bonds has been examined. Debt service will be covered by funds available to the hospital such as patient revenues and unrestricted reserves. The debt service coverage ratio after the issuance of the bonds is expected to be 5.59 which is consistent with the Moody's median coverage ratio of 5.6 for entities with the same credit rating.

UNC Hospitals is being represented by Womble Carlyle Sandridge & Rice, PLLC, as bond counsel. Bank of America Merrill Lynch will serve as the underwriter for the proposed revenue bonds. US Bank will serve as the trustee.

It is recommended that the following Resolution be adopted and that the President of the University, or his designee, be authorized to provide for the sale of the bonds.

RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND DELIVERY BY THE BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA OF NOT TO EXCEED \$50,000,000 AGGREGATE PRINCIPAL AMOUNT OF UNIVERSITY OF NORTH CAROLINA HOSPITALS AT CHAPEL HILL REVENUE BONDS AND APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF CERTAIN OTHER DOCUMENTS IN CONNECTION THEREWITH