

Request To Limit The Maximum Aggregate Principal Amount To Be Issued by UNC-Chapel Hill Under Its Commercial Paper Program and Related Matters – The University of North Carolina at Chapel Hill

In 2001, the General Assembly and the Board authorized North Carolina State University and the University of North Carolina at Chapel Hill (“UNC-Chapel Hill”) to implement a commercial paper program allowing the periodic issuance of tax-exempt commercial paper bonds.

Commercial paper is short-term, unsecured debt issued in the form of special obligation general revenue bonds, 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 was established to fund previously approved projects, up to the authorized maximum amount. The bonds are issued by the Board of Governors but are an obligation of the constituent institution secured by available funds excluding state appropriations, tuition, and restricted gifts. Funds are drawn on an as-needed basis for capital expenditures. The short-term program is repaid with proceeds from a long-term bond issue, gift receipts, or other sources. By providing continual access to capital for construction projects, North Carolina State University and UNC-Chapel Hill have not been required to issue long-term debt as frequently as in the past and have had greater flexibility over the timing of bond issues. In addition, 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. Another benefit of commercial paper is that interest expense is incurred only on funds that have been drawn.

The authorized size of the commercial paper program is \$500 million. UNC-Chapel Hill is authorized to issue \$400 million and NC State is authorized to issue \$100 million. For its

portion of the program, UNC-Chapel Hill requests the Board issue a resolution to limit maximum aggregate principal borrowings for UNC-Chapel Hill to \$250,000,000. This is in response to liquidity requirements from the ratings agencies.

Furthermore, UNC Chapel Hill requests to amend the mix of Commercial Paper and Special Obligation Bonds previously approved by the Board of Governors for Kenan Stadium by reducing the Commercial Paper portion by \$28 million and increasing the Special Obligation Bond portion by \$28 million. This results in no change in the level of indebtedness for the previously approved project.

Additionally, UNC-Chapel Hill requests to add Wells Fargo as a dealer for the Commercial Paper program in the interest of diversification of its dealer base. Currently, Bank of America-Merrill Lynch is the sole dealer for the joint program.

It is recommended that the following Resolution be adopted:

RESOLUTION OF THE BOARD OF GOVERNORS OF THE UNIVERSITY
OF NORTH CAROLINA REGARDING BOND FINANCING MATTERS FOR
UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL AND NORTH
CAROLINA STATE UNIVERSITY at RALEIGH