APPENDIX A

Authorization to Issue Refunding Bonds and Approving Interest Rate Swap Agreement for the University of North Carolina Hospitals at Chapel Hill

As part of its proposed refunding plan, the University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) requests the Board of Governors to provide for the issuance of refunding bonds on or about February 12, 2009 for the purpose of current refunding a portion of the outstanding Board of Governors of The University of North Carolina University of North Carolina Hospitals at Chapel Hill Revenue Bonds, Series 1999, dated May 1, 1999, of which $49,020,000 principal amount is currently outstanding. The UNC Health Care System Board has adopted a resolution proposing that the Board of Governors issue revenue refunding bonds for the purpose of refunding a portion of the outstanding Series 1999 Bonds. The Series 1999 Bonds are callable for optional redemption on February 15, 2009. Due to limitations imposed by the Internal Revenue Code of 1986, as amended, the Series 1999 Bonds may not be advance refunded. Given that interest rates are currently at historically low levels, UNC Hospitals desires to enter into financial arrangements through the use of an interest rate swap agreement that will lock in the current attractive interest rates for the refunding bonds when issued.

Under the proposed financing transaction, UNC Hospitals would negotiate and enter into an interest rate swap agreement shortly following the Board of Governors' approval that would become effective on or about February 12, 2009 (the anticipated date of issuance of the refunding bonds). Under the terms of the interest rate swap agreement, UNC Hospitals would agree to pay a fixed rate to Bank of America, N.A. on a notional amount corresponding to the amount of refunding bonds expected to be issued and amortized over the term of the refunding bonds, and the Bank of America would agree to pay UNC Hospitals a floating rate on the same notional amount. The refunding bonds would be issued as weekly variable rate bonds, and the floating rate payment under the interest rate swap agreement would be established at a rate that is expected to be substantially equivalent to the weekly variable rate borne by the refunding bonds. This technique would enable UNC Hospitals to synthetically "lock in" an interest rate for the refunding bonds that reflects today's attractive rates. The fixed rate payment to be made by UNC Hospitals under the interest rate swap agreement is required to be set at a rate that results in net present value debt service savings of at least 4.50% of the par amount of the Series 1999 Bonds to be refunded (assuming that the floating rate under the interest rate swap agreement is identical to the weekly variable rate on the refunding bonds over their entire term). The refunding bonds would be issued on or about February 12, 2009 pending final Board of Governors' approval of the refunding bonds.

Supplemental information concerning this transaction is attached.

Based on the foregoing, it is recommended that the following resolution be approved by the Board of Governors:

> RESOLUTION AUTHORIZING AND APPROVING UNC HOSPITALS ENTERING INTO A FORWARD STARTING INTEREST RATE SWAP AGREEMENT IN CONNECTION WITH THE FUTURE ISSUANCE, SALE AND DELIVERY BY THE BOARD OF GOVERNORS OF REVENUE BONDS ON BEHALF OF UNC HOSPITALS TO REFUND ALL OR A PORTION OF THE OUTSTANDING BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA UNIVERSITY OF NORTH CAROLINA HOSPITALS AT CHAPEL HILL REVENUE REFUNDING BONDS, SERIES 1999