

6. Authorization of Projects Funded With Special Obligation Bonds –
NCSU and UNC-CHJonathan Pruitt

Situation: North Carolina State University and The University of North Carolina at Chapel Hill request that the Board approve use of the Commercial Paper Program for projects approved by the 2014 Session of the General Assembly.

Background: In 2001, the General Assembly and the Board authorized North Carolina State University and the University of North Carolina at 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 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 was established to fund previously approved projects, up to the authorized maximum amount.

Assessment: 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.

Action: This item requires a vote.

Authorization of Projects Funded With Special Obligation Bonds – North Carolina State University and 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 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 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 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 University of North Carolina at Chapel Hill and North Carolina State University request that the Board approve and ratify the use of proceeds of special obligation bonds for

participation in the Commercial Paper Program for the following projects, approved by the 2014 Session of the General Assembly:

The University of North Carolina at Chapel Hill

Chilled Water Plant at Manning Drive (\$32,000,000)

North Carolina State University

Reynolds Coliseum Renovation (\$35,000,000)

It is recommended that the following Resolution be adopted and that the Vice President for Finance be authorized to use commercial paper bonds for the projects listed.

RESOLUTION OF THE BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA AUTHORIZING SPECIAL OBLIGATION BOND PROJECTS FOR THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL AND NORTH CAROLINA STATE UNIVERSITY AT RALEIGH