Committee on Budget and Finance **January 15, 2014**

4. Sale of Special Obligation Bonds – UNCC ....Jonathan Pruitt

Situation: The University of North Carolina at Charlotte will request in February that the Board issue special obligation bonds for the purpose of (1) the construction of a new residence hall, Residence Hall XIV, approved by the Board of Governors and authorized by the 2014 General Assembly, (2) renovations and improvements to aging infrastructure within core campus and information technology improvements, and (3) paying the costs incurred in connection with the issuance of the 2015 Bonds.

Background: The Board of Governors is authorized to issue special obligation bonds for capital improvements projects that have been approved by the General Assembly. These projects have been previously approved by the Board of Governors and the General Assembly and are ready to be approved for financing.

Assessment: The University of North Carolina at Charlotte currently has an issuer credit rating of Aa3 with Stable Outlook by Moody's Investor Service and AA- with a Negative Outlook by Standard and Poor's. After issuance of these bonds, UNCC will likely maintain its credit rating. While many metrics for evaluating credit ratings are favorable in relation to their current rating, the debt to operating revenues ratio is moving in an unfavorable direction.

Action: This item is for discussion only.

Sale of Special Obligation Bonds - The University of North Carolina at Charlotte

The Board of Governors is authorized to issue special obligation bonds for capital improvements projects that have been approved by the General Assembly. Although a specific source of funding is used by a campus when retiring these bonds, special obligation bonds are generally payable from all campus revenues excluding tuition, State appropriations, and restricted reserves.

The University of North Carolina at Charlotte will request in February that the Board issue special obligation bonds for the purpose of (1) the construction of a new residence hall, Residence Hall XIV, approved by the Board of Governors and authorized by the 2014 General Assembly, (2) renovations and improvements to aging infrastructure within core campus and information technology improvements, and (3) paying the costs incurred in connection with the issuance of the 2015 Bonds. The 2015 Bonds may be issued in one or more series of bonds, including any combination of tax-exempt bonds and taxable bonds as the President of the University, or his designee, in consultation with the appropriate officers at UNC Charlotte, determine to be in the best interest of the University. The 2015 Bonds will be issued no later than April 15, 2015.

Residence Hall XIV, with an estimated cost of $44,800,000, will be funded with institutional trust funds of $4,800,000 and $40,000,000 of debt proceeds from this 2015 bond issue. The Residence Hall XIV is a 400+-bed facility and will accommodate student growth. The Campus Infrastructure II with an estimated cost of $46,000,000 will be funded with institutional trust funds of $11,000,000 and $35,000,000 of debt proceeds from this 2015 bond issue. The Campus Infrastructure II projects include renovations of aging infrastructure in UNCC's chemistry and physics building, modernization of infrastructure in several aging buildings in the core of campus, continued improvement to information technology network capacity, and infrastructure additions in the East Student Village.

The issuance of bonds for the projects will not exceed an amount of $79,800,000. The debt service will be funded with housing receipts and student fees. Bank of America/Merrill Lynch will serve as senior underwriter and Wells Fargo will serve as co-underwriter for the transaction. Robinson, Bradshaw and Hinson is bond counsel and RBC Capital Markets, LLC is the financial advisor.

The University of North Carolina at Charlotte currently has an issuer credit rating of Aa3 by Moody's Investor Service with a Stable Outlook and AA- with a negative outlook by Standard and Poor's. While many metrics for evaluating credit ratings are favorable in relation to their current rating, the debt to operating revenues ratio is moving in an unfavorable direction. Due to this fact, this item is being brought to the Budget and Finance Committee for discussion purposes in January in preparation of final action at the February Board meeting.