

AGENDA ITEM

6. Refinancing of Housing Foundation Indebtedness – UNCW..... Michael Vollmer

Situation:	The University of North Carolina Wilmington (UNCW) requests that the Board authorize amendments to previously approved agreements related to the financing of student housing facilities and a parking deck on the campus of UNCW that was constructed through a university created nonprofit entity, The UNCW Corporation (UNCW Corp).
Background:	UNC System campuses have constructed student housing facilities and a parking deck through university created and related nonprofit entities responsible for issuing the debt and constructing the projects. The University Housing & Residence Life division operates the housing as university housing and University Auxiliary Services operates the parking deck as part of the parking system pursuant to a use agreement. In these cases, the nonprofit entity enters into a lease agreement and a use agreement with the UNC campus establishing rental payments equal to the debt service (principal and interest) the nonprofit entity must pay.
Assessment:	Due to the favorable interest rate environment, the debt issued by the UNCW Corp to finance the construction of student housing facilities at UNCW can be refinanced to achieve net present value savings on the remaining terms of the outstanding debt. This necessitates amendments to the use agreement in order to lower the debt service and reduce the rental payments in each fiscal year made by UNCW to its affiliated nonprofit entity. In total, the University estimates that it can achieve approximately \$6.18 million in gross cash savings and \$6.59 million in net present value savings, representing 10.72% of refunded par amount of bonds.
Action:	This item requires a vote by the Committee, with the full Board vote through the Consent Agenda.

Refinancing of Housing Foundation Indebtedness – UNCW

ISSUE OVERVIEW

The University of North Carolina Wilmington (UNCW) requests that the Board authorize amendments to previously approved use agreements for the rental of student housing facilities and a parking deck on the campus of UNCW that was constructed through a university related nonprofit entity. UNCW Corporation (UNCW Corp), a nonprofit entity created for the purpose of constructing student housing on the campus of UNCW, financed the construction of housing and parking facilities through the issuance of debt. UNCW entered into a lease agreement and a use agreement, previously approved by the Board of Governors and the Council of State that established a debt service schedule and the amount of rent to be paid by UNCW to UNCW Corp for the student housing and parking facilities. Due to the current favorable interest rate environment, the outstanding debt can be refinanced and the savings can be passed on to the UNCW. To accomplish this, the existing use agreement must be amended to adjust the debt service schedule to reflect the savings from the refinancing, make certain conforming changes to reduce, or eliminate covenant requirements on UNCW and also lower the rent to be paid by UNCW to UNCW Corp.

UNCW Corp plans to refinance approximately \$56.2 million in outstanding Certificates of Participation (COPs) for student housing and parking projects financed in 2008. Specifically, limited obligation bonds will be issued for the purpose of (1) refunding \$56,210,000 of Student Housing Project, Series 2008 Certificates of Participation (2008 COPs) and (2) paying transaction costs incurred in connection with the refunding.

The refunding of the 2008 COPs will be accomplished through a single issue of new Limited Obligation Bonds (2016 LOBs). Limited obligation bonds accomplish the same objective as certificates of participation (the same lease procurement structure constitutes the security for both issues), while providing UNCW with a lower interest rate in comparison to COPs in today's market. LOBs achieve slightly better pricing in today's markets.

The issuance of LOBs to refund all or a portion of prior certificates of participation will not exceed a par amount of \$56,210,000. As always, due to interest rate risk at the time of the sale (scheduled on or about June 7), it is possible the bonds may not be refunded if market conditions at the time of pricing do not produce sufficient savings.

The bonds will be priced and sold through a negotiated method. Raymond James & Associates, Inc. will serve as senior underwriter and Wells Fargo Securities will serve as co-underwriter for the transaction. RBC Capital Markets, LLC is the financial advisor. Parker Poe Adams & Bernstein LLP serves as bond counsel and Moore & Van Allen PLLC is underwriter's counsel.

The University of North Carolina Wilmington currently has an issuer credit rating of A1 by Moody's Investor Service with a positive outlook. Separately, Standard & Poor's has rated UNCW's COPs as A (SPUR) with a stable outlook, and Moody's has assigned an A2 rating on UNCW's COPs.

It is recommended that UNCW be authorized to enter into the revised agreements as set out in the attached resolution.