

Sale of Special Obligation Bonds – North Carolina State University

ISSUE OVERVIEW

In 2001, the General Assembly and the Board authorized North Carolina State University 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 has 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.

North Carolina State University requests that the Board approve and ratify the use of proceeds of special obligation bonds for participation in the Commercial Paper Program for the campus funded portion of the Engineering Oval Building and necessary related campus infrastructure improvements, approved by the voters in the Connect NC Bond.

RECOMMENDATION

It is recommended that the following Resolution be adopted and that the Senior Vice President for Finance & Budget 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 NORTH CAROLINA STATE
UNIVERSITY AT RALEIGH**

WHEREAS, by Chapter 116 of the General Statutes of North Carolina (the “*Act*”), the Board of Governors (the “*Board*”) of the University of North Carolina (the “*University*”) is vested with general control and supervision of Appalachian State University, East Carolina University, Elizabeth City State University, Fayetteville State University, North Carolina Agricultural and Technical State University, North Carolina Central University, North Carolina State University at Raleigh, The University of North Carolina at Asheville, The University of North Carolina at Chapel Hill, The University of North Carolina at Charlotte, The University of North Carolina at Greensboro, The University of North Carolina at Pembroke, The University of North Carolina School of Arts, The University of North Carolina at Wilmington, Western Carolina University and Winston-Salem State University and other institutions; and

WHEREAS, the Board is authorized by Chapter 116D of the Act to issue, subject to the approval of the Director of the Budget, at one time or from time to time, special obligation bonds of the Board for the purpose of paying all or any part of the cost of acquiring, constructing, or providing a special obligation project and refunding bonds for the purpose of refunding any bonds by the Board under the Article or under any Article of Chapter 116 of the General Statutes, including the payment of any redemption premium on them and any interest accrued or to accrue to the date of redemption of the bonds refunded; and

WHEREAS; the Board has previously issued the University of North Carolina System Commercial Paper Bonds (UNC at Chapel Hill/NC State) (the “*Commercial Paper*”), proceeds of which are available to North Carolina State University at Raleigh (“*NC State*”) in order to finance the costs of certain projects on the campus of NC State;

WHEREAS; the Board has determined to add to the list of projects eligible to be financed with the proceeds of the Commercial Paper and any other special obligation bonds (collectively, the “*Bonds*”) issued by the Board on behalf of NC State, respectively, to include the projects listed in Exhibit A to this resolution for NC State (the “*Special Obligation Bond Projects*”); and

WHEREAS, under the General Trust Indenture dated as of October 1, 2001 (the “*NC State General Indenture*”) between the Board and U.S. Bank National Association, as successor trustee, special obligation bonds issued under the NC State General Indenture are payable solely from any funds of NC State or the Board in each Fiscal Year remaining after satisfying obligations of NC State or the Board under a trust indenture, trust agreement or bond resolution providing for the issuance of debt as of the date of the NC State General Indenture with respect to NC State, but excluding (1) appropriations by the General Assembly of the State from the State General Fund, (2) tuition payments by NC State students, (3) funds whose purpose has been restricted by the gift, grant or payee thereof, (4) revenues generated by Special Facilities (as defined in the NC State General Indenture) and (5) funds restricted by law (the “*NC State Available Funds*”);

NOW, THEREFORE, BE IT RESOLVED by the Board of Governors of the University of North Carolina as follows:

Section 1. ***Authorization of Special Obligation Bonds Projects.*** That the Board hereby approves and ratifies the use of the proceeds of the Bonds for the Special Obligation Bonds Projects listed in Exhibit A to this resolution.

APPENDIX D

Section 2. ***Sufficiency of Available Funds.*** That the Board hereby finds that sufficient NC State Available Funds are available to pay the principal of and interest on the Bonds attributable to NC State.

Section 3. ***Conflicting Provisions.*** All resolutions or parts thereof of the Board in conflict with the provisions herein contained are, to the extent of such conflict, hereby superseded and repealed.

Section 4. ***Effective Date.*** This Resolution is effective immediately on the date of its adoption.

The foregoing Resolution was duly adopted by the Board at a regular meeting of the Board held on the 27th day of May, 2016 and that the same was passed and adopted by the following vote:

AYES:

NAYS:

ABSENT:

ABSTAIN:

PASSED, ADOPTED, AND APPROVED this 27th day of May, 2016.

APPENDIX D

EXHIBIT A

NC STATE PROJECTS

The following projects on the campus of NC State approved by the North Carolina General Assembly in Chapter 275 of the 2015 North Carolina Session Laws are added to the list of projects eligible to be financed with proceeds of special obligation bonds issued by the Board of Governors on behalf of NC State:

Engineering Building Oval and Campus Infrastructure (\$77,000,000)