

7. Refinancing of Housing Foundation Indebtedness – UNCWJonathan Pruitt

Situation: The University of North Carolina at Wilmington (UNCW) requests that the Board authorize amendments to previously approved agreements related to the financing of student housing facilities that were constructed through a university created nonprofit entity, The UNCW Corporation (UNCW Corp).

Background: UNC campuses have constructed student housing facilities through university created and related nonprofit entities responsible for issuing the debt and constructing the projects. The University Housing and Residence Life division operates university housing pursuant to a use agreement, whereby the nonprofit entity enters into a lease agreement and a use agreement with the campus and establishes rental payments equal to the debt service (principal and interest) that the nonprofit entity must pay.

Assessment: Due to the favorable interest rate environment, the debt issued by 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 respective use agreements in order to lower the debt service and reduce the rental payments in each fiscal year made by UNCW to its affiliated nonprofit entity.

Action: This item requires a vote.

Refinancing of Housing Foundation Indebtedness – UNCW

UNCW requests that the Board authorize amendments to previously approved use agreements. UNCW Corp, a nonprofit entity created for the purpose of constructing student housing on the campus, financed the construction through the issuance of debt. Previously approved by the Board of Governors and the Council of State, UNCW entered into a lease agreement and a use agreement that established a debt service schedule, and the amount of rent to be paid by UNCW to UNCW Corp for the student housing facilities. Due to the current favorable interest rate environment, the outstanding debt can be refinanced and the savings can be passed on to 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 \$64.6 million in outstanding Certificates of Participation (COPs) for student housing projects financed in 2005 and 2006. Specifically, limited obligation bonds will be issued for the purpose of (1) refunding \$27,360,000 of Student Housing Project, Series 2005 Certificates of Participation, (2) refunding \$37,250,000 of Student Housing Project, Series 2006 Certificates of Participation, and (3) paying transaction costs incurred in connection with each refunding (2015 Bonds).

The combined refunding of the 2005 and 2006 COPs will be accomplished through a single issue of new Limited Obligation Bonds (2015 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 \$64,610,000. As always, due to interest rate risk at the time of the sale (scheduled on or about May 12), it is possible the bonds may not be refunded if market conditions at the time of pricing do not produce sufficient savings.

Merrill Lynch, Pierce, Fenner & Smith, Inc. will serve as senior underwriter; Raymond James & Associates, Inc. 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; Moore & Van Allen PLLC is underwriter's counsel.

The University of North Carolina at 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.

**A RESOLUTION AUTHORIZING AGREEMENTS RELATED TO THE
REFINANCING OF RENTALS RELATED TO THE CONSTRUCTION OF
STUDENT PRIVATE HOUSING FACILITIES ON THE CAMPUS OF THE
UNIVERSITY OF NORTH CAROLINA AT WILMINGTON**

WHEREAS, by Chapter 116 of the General Statutes of North Carolina, 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, The University of North Carolina School of the Arts, North Carolina State University, 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 at Wilmington (“*UNC Wilmington*”) and Winston-Salem State University and other institutions; and

WHEREAS, UNCW Corporation Housing I, LLC (the “*2005 UNCW LLC*”), executed and delivered its Certificates of Participation (The University of North Carolina at Wilmington Student Housing Project), Series 2005 (the “*2005 Certificates*”), the proceeds of which were used to construct student housing facilities containing approximately 524 beds, the related parking and recreational facilities on the campus of UNC Wilmington (the “*2005 Project*”); and

WHEREAS, UNCW Corporation Housing II, LLC (the “*2006 UNCW LLC*”) executed and delivered its Certificates of Participation (The University of North Carolina at Wilmington Student Housing Project), Series 2006 (the “*2006 Certificates*”), the proceeds of which were used to construct student housing facilities containing approximately 609 beds, the related parking facilities, recreational and retail facilities on the campus of UNC Wilmington (the “*2006 Project*” and together with the 2005 Project, the “*Projects*”); and

WHEREAS, UNC Wilmington has determined that it is in its best interests to prepay the 2005 Certificates and the 2006 Certificates in advance of their maturities; and

WHEREAS, 2005 UNCW LLC and 2006 UNCW LLC will assign all its rights and obligations in the 2005 Project and the 2006 Project, respectively, to UNCW Corporation (the “*Corporation*”);

WHEREAS, under an Indenture of Trust dated as of April 1, 2015 (the “*2015 Indenture*”) between the Corporation and Branch Banking and Trust Company, as trustee (the “*Trustee*”), the Corporation will execute and deliver Refunding Limited Obligation Bonds (The University of North Carolina at Wilmington Student Housing Projects), Series 2015 (the “*2015 Bonds*”), to provide the funds to prepay the 2005 Certificates and the 2006 Certificates in advance of their maturities; and

WHEREAS, UNC Wilmington has previously entered into Use Agreements with respect to each of the Projects and has determined that it is in its best interests to amend the Use Agreements in connection with the execution and delivery of the 2015 Bonds so as to reduce its base rentals in fiscal year to an amount sufficient to pay the principal and interest with respect to the 2015 Bonds and make other conforming changes (the “*Amendments*”); and

WHEREAS, a portion of the proceeds of the 2015 Bonds will be deposited into an escrow fund under an Escrow Agreement dated as of April 1, 2015 (the “*Escrow Agreement*”) between UNC Wilmington and Branch Banking and Trust Company, as escrow agent, to provide for payment of the principal and interest on the 2006 Certificates through their June 1, 2016 prepayment date; and

WHEREAS, the 2015 Bonds are not and will not be an obligation of the Board or UNC Wilmington, but will be secured solely from the Base Rentals paid by UNC Wilmington; and

WHEREAS, there has been presented to the Board the form of the Indenture and the forms of the Amendments and the Escrow Agreement which the Board proposes to approve and authorize UNC Wilmington to execute and deliver; and

NOW, THEREFORE, THE BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:

Section 1. Authorization of the Amendments, the Escrow Agreement and the Indenture.

That the form and content of the Amendments, the Escrow Agreement and the Indenture be and the same hereby are in all respects authorized, approved and confirmed, and the Chancellor and Vice Chancellor for Business Affairs of UNC Wilmington and the President, the Senior Vice President and the Chief Operating Officer or Vice President-Finance of the University be and they hereby are authorized, empowered and directed to execute, approve and deliver the Amendments, the Escrow Agreement and the Indenture, as applicable, including necessary counterparts, in substantially the form and content presented to the Board, but with such changes, modifications, additions or deletions therein as to them seem necessary, desirable or appropriate, their execution thereof to constitute conclusive evidence of the Board’s approval of any and all such changes, modifications, additions or deletions therein, and that from and after the execution and delivery of the Amendments, the Escrow Agreement and the Indenture, the Chancellor and Vice Chancellor for Business Affairs of UNC Wilmington and the President, the Senior Vice President and the Chief Operating Officer or Vice President-Finance of the University are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of the Amendments, the Escrow Agreement and the Indenture as executed.

Section 2. General Authority. From and after the execution and delivery of the documents hereinabove authorized, the Chairman, the President, , the Senior Vice President and the Chief Operating Officer, the Vice President-Finance, the Secretary and the Assistant Secretary of the Board and the Chancellor and Vice Chancellor for Business Affairs of UNC Wilmington are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of said documents as executed, and are further authorized to take any and all further actions to execute and deliver any and all other documents as may be necessary to complete the transaction contemplated by the Amendments, the Escrow Agreement and the Indenture and the execution and delivery of the 2015 Bonds.

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 on its adoption.

The foregoing Resolution was duly adopted by the Board at a regular meeting of the Board held on the 10th day of April, 2015 and that the same was passed and adopted by the following vote:

AYES:

NAYS:

ABSENT:

ABSTAIN:

PASSED, ADOPTED, AND APPROVED this 10th day of April, 2015.

STATE OF NORTH CAROLINA)
)
COUNTY OF ORANGE)

SS:

SECRETARY’S CERTIFICATE
OF AUTHENTICATION

I, Ann Lemmon, Secretary of the University of North Carolina, *DO HEREBY CERTIFY* that (1) the foregoing is a full, true and correct copy of the approving resolution adopted by the Board of Governors of the University of North Carolina at its regular meeting on April 10, 2015 and appearing in the minutes of such meeting, (2) notice of the meeting of the Board of Governors of the University of North Carolina held on April 10, 2015 was sent to each member of the Board, and (3) a quorum was present at the meeting on April 10, 2015 at which time the foregoing Resolution was adopted.

WITNESS, my hand and the seal of the University of North Carolina this ____ day of April, 2015.

[SEAL]

Ann Lemmon, Secretary
The University of North Carolina