

4. Discussion: UNC System Debt Affordability StudyJonathan Pruitt

Situation: The University of North Carolina is now required to prepare a new annual report detailing the debt capacity of each UNC System institution and the University as a whole to the Joint Legislative Commission on Governmental Operations, the State Treasurer’s Office, and the Office of State Budget and Management.

Background: The appropriations bill adopted by the General Assembly last fall (SL 2015-241) contained a new provision requiring the Board of Governors to annually advise the General Assembly and the Governor on the estimated debt capacity of the University of North Carolina for the upcoming five years. The provision also requires each constituent institution to report current and anticipated debt levels to the Board of Governors by November 1 of each year. Following the institution reports, the Board is to report findings for the UNC System as a whole by February 1 of each year.

To comply with this new provision, the University initiated an RFP process last October to select a financial advisor to assist UNC General Administration with this analysis. First Tryon Advisors of Charlotte was selected through this competitive process and has been working with the constituent institutions and General Administration to develop the structure and methodology necessary to produce the first UNC System Debt Affordability Study.

Assessment: First Tryon Advisors is currently working with a study team from ASU, FSU, NCCU, NCSU, UNCA, UNC-CH, UNCC, and General Administration to produce the inaugural study for distribution in April of this year. All future studies will be completed by the deadlines set forth in statute.

Action: This item is for information only.

"§ 116D-56. Debt affordability study required.

(a) Study Required. – The Board of Governors shall annually advise the Governor and the General Assembly on the estimated debt capacity of The University of North Carolina for the upcoming five fiscal years. The Board shall oversee the undertaking of an annual debt affordability study and the establishment of guidelines for evaluating the University's debt burden. The guidelines should include target and ceiling ratios of debt to obligated resources and target and floor percentages for the five-year payout ratio. The Board shall also recommend any other debt management policies it considers desirable and consistent with sound management of the University's debt.

(b) Board of Governors Reporting Required. – The Board shall report its findings and recommendations to the Office of State Budget and Management, the Joint Legislative Commission on Governmental Operations, the State Treasurer, and The University of North Carolina General Administration by February 1 of each year. The report shall be accompanied by each of the reports provided to the Board pursuant to subsection (c) of this section.

(c) Constituent Institution Reporting Required. – No later than November 1 of each year, each constituent institution shall report to the Board of Governors on its current and anticipated debt levels. The report shall be made in a uniform format to be prescribed by the Board of Governors. Each report shall include at least the following:

- (1) The amount and type of outstanding debt of the institution.
- (2) The sources of repayment of the debt.
- (3) The amount of debt that the institution plans to issue or incur during the next five years.
- (4) A description of projects financed with the debt.
- (5) The current bond rating of the institution and information about any changes to that bond rating since the last report was submitted.
- (6) Information about the constituent institution's debt management policies and any recommendations for methods to maintain or improve the University's bond rating.
- (7) Debt burden comparisons to comparable peer institutions.
- (8) Any other information requested by the Board of Governors.

(d) Definitions. – The following definitions apply in this section:

(1) Debt. – Debt incurred under this Chapter or any other debt that will be serviced with funds available to the institutions from gifts, grants, receipts, Medicare reimbursements for education costs, hospital receipts from patient care, or other funds, or any combination of these funds, but not including debt that will be serviced with funds appropriated from the General Fund of the State.

(2) Obligated resources. – As defined in G.S. 116D-22."

UNIVERSITY OF NORTH CAROLINA
2016 Debt Capacity Study
PROJECT TIMELINE

DATE	TASK	RESPONSIBILITY
Sept. 18, 2015	Budget Bill signed into law with new reporting requirement	
Oct. 15, 2015	RFP posted to select Financial Advisor for UNC GA	UNCGA
Nov. 9, 2015	Proposals Publicly Opened	UNCGA
Jan. 12	Contract awarded to First Tryon Advisors	UNCGA
Feb. 4	Finalize members of Study Task Force	UNCGA
Feb. 11	Distribute general outline of Debt Capacity Study (DCS) components and initial versions of underlying models	FTA
Feb. 12	<i>Organizational call with UNCGA, STF and FTA to review outline</i>	<i>UNCGA, FTA, STF</i>
Feb. 15	Distribute information requests to each CAMP	FTA
Feb. 18	Distribute revised versions of underlying models to UNCGA and STF	FTA
Feb. 19	<i>Status call with UNCGA, STF and FTA</i>	<i>UNCGA, FTA, STF</i>
Feb. 23	Distribute revised versions of underlying models and initial draft of DCS	FTA
Feb. 25	<i>Status call with UNCGA, STF and FTA</i>	<i>UNCGA, FTA, STF</i>
By Feb. 26	Provide FTA with requested CAMP information	CAMPs
[Mar. 3-4]	<i>Discuss Debt Capacity Study with Board of Governors</i>	<i>BOG, UNCGA, FTA</i>
Mar. 7	Distribute follow-up information requests to each CAMP	FTA
Mar. 8	Distribute revised draft of DCS to UNCGA and STF	FTA
Mar. 10	<i>Status call with UNCGA, STF and FTA</i>	<i>UNCGA, FTA, STF</i>
By Mar. 11	Provide FTA with requested follow-up information	CAMPs
Mar. 14	Distribute revised draft of DCS and draft CAMP reports to each CAMP	FTA
Mar. 17	<i>Status call with UNCGA, STF and FTA</i>	<i>UNCGA, FTA, STF</i>
Mar. 25	Deliver comments to revised DCS to FTA	ALL
Mar. 28	Distribute proposed final draft of DCS and CAMP reports to working group	FTA
Mar. 30	Deliver final comments to draft DCS to FTA	ALL
Mar. 31	<i>Status call with UNCGA, STF and FTA to review final draft DCS</i>	<i>UNCGA, FTA, STF</i>
Apr. 5	Deliver final Debt Capacity Study to BOG for Consideration	FTA, UNCGA

RESPONSIBILITY LEGEND:

Entity	Defined
Board of Governors	BOG
UNC General Administration	UNCGA
UNC Campuses	CAMP
Study Task Force	STF
First Tryon Advisors	FTA