

Refinancing of Housing Foundation Indebtedness – FSU

ISSUE OVERVIEW

Fayetteville State University (FSU) requests that the Board authorize a use agreement for the rental of University Place Apartments (UPA). Fayetteville State University Housing Foundation, LLC (Foundation), a nonprofit entity created for the purpose of constructing student housing on the campus of FSU, financed the construction of UPA with proceeds of bonds issued on the Foundation's behalf through the North Carolina Capital Facilities Financing Agency in 2001 (2001 Bonds). In 2011, the State entered into a 10-year master lease agreement under which FSU leased UPA from the Foundation in exchange for lease payments that support UPA's operations and pay debt service on the 2001 Bonds.

The 2001 Bonds are currently supported by a letter of credit issued by Wells Fargo Bank, N.A. The terms governing the most recent extension of that letter of credit require the Foundation to restructure the 2001 Bonds before February 28, 2017 in order to replace Wells Fargo as the credit provider for the 2001 Bonds. To facilitate that restructure, the Board and Council of State approved in 2016 an extension of the master lease through the maturity date for the 2001 Bonds. In connection with the restructuring, FSU is requesting the approval of a use agreement to bring the terms and conditions of this financing more in line with other housing foundation financings across the UNC System.

The Foundation plans to issue a new series of bonds through the North Carolina Capital Facilities Financing Agency in order to (1) refund \$11,400,000 of outstanding 2001 Bonds and (2) pay transaction costs incurred in connection with the refunding. As part of the restructure, the Foundation will also eliminate the need for an interest rate swap, release approximately \$1 million from a Debt Service Reserve Fund (DSRF) for the 2001 Bonds, which will be used to downsize the refinancing, and fix the interest rate on its bonds for a six-year period. During that initial six-year term, the restructure will generate more than \$500,000 in net present value savings, or 4.23% of the par amount outstanding.

The Foundation conducted a competitive RFP process to identify a lender to purchase the 2017 Bond in a direct placement transaction. PNC Bank, N.A. has agreed to purchase the 2017 Bond for an initial six-year period at a fixed interest rate of 2.78%. (The current effective rate on the 2001 Bonds is 4.23%.) The Bank also agreed to remove customary "gross-up" language that could result in a significant increase in the interest rate on the 2017 Bond if corporate tax rates were reduced.

First Tryon Advisors is the financial advisor for this transaction. Parker Poe Adams & Bernstein, LLP serves as bond counsel, Moore & Van Allen PLLC serves as bank's counsel, and The Banks Law Group, P.A. serves as Foundation's counsel.

The 2001 Bonds are not currently rated, and because the transaction will be structured as a direct bank placement, no rating will be assigned to the 2017 Bonds. It is not anticipated that this refunding will impact FSU's issuer credit rating.

It is recommended that FSU be authorized to enter into the use agreement as set out in the attached resolution.

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A RESOLUTION AUTHORIZING A USE AGREEMENT RELATED TO HOUSING FACILITY FOR FAYETTEVILLE STATE UNIVERSITY

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 (“FSU”), 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, Western Carolina University and Winston-Salem State University and other institutions; and

WHEREAS, the Board has previously approved the extension of the lease (the “Lease”) from Fayetteville State University Housing Foundation, LLC (the “Foundation”) to the State of North Carolina, on behalf of FSU, related to University Place Apartments, 341 apartment bedrooms (the “Housing Facility”), from a 10-year term to a 30-year term to match the bond repayment term for the bond debt that is refinancing the Housing Facility owned by the Foundation;

WHEREAS, the Foundation has determined to refinance the bond debt related to the Housing Facility through the North Carolina Capital Facilities Finance Agency and FSU has determined to cooperate with the Foundation in the refinancing;

WHEREAS, in conjunction with such refinancing the Foundation has requested that FSU enter into a Use Agreement (the “Use Agreement”) with the Foundation whereby FSU will agree to operate and manage the Housing Facility as part of its campus operations and whereby FSU will assume the rental payment obligations of the State to the Foundation under the Lease in the form of Base Rentals and any Additional Rentals as described in the Use Agreement, such rental obligations to be paid from revenues of the Housing Facility and, if necessary, revenues of FSU’s housing system after payment of FSU’s General Revenue Debt (as defined in the Use Agreement);

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

Section 1. Authorization of Use Agreement. That the Use Agreement be and the same hereby are in all respects authorized, approved and confirmed, and the Chancellor and Vice Chancellor for Business and Finance of FSU and the Chairman of the Board, the President of the University, the Senior Vice President for Finance and Budget of the University, the Secretary and the Assistant Secretary of the Board and the Senior Associate Vice President and Secretary of the University (the “Authorized Officers”) be and they hereby are authorized, empowered and directed to execute, approve and deliver the Use Agreement, including necessary counterparts, in substantially the form and content as to them seem necessary, desirable or appropriate, and that from and after the execution and delivery of the Use Agreement, the Authorized Officers 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 Use Agreement.

Section 2. General Authority. From and after the execution and delivery of the documents hereinabove authorized, the Authorized Officers 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

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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 the Use Agreement and its on-going administration. The Authorized Officers may act individually or collectively to exercise the authority granted under this Resolution.

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.

PASSED, ADOPTED, AND APPROVED this 13th day of January, 2017.