

## **Sale of Special Obligation Bonds – North Carolina State University at Raleigh**

### **ISSUE OVERVIEW**

The Board of Governors is authorized to issue special obligation bonds for capital improvements projects that have been approved by the General Assembly. Although a specific source of funding is used by a campus when retiring these bonds, special obligation bonds are generally payable from all campus revenues excluding tuition, state appropriations, and restricted reserves.

NC State University requests that the Board issue special obligation bonds in one or more series in an aggregate principal amount not to exceed \$100,000,000 for the purpose of refinancing up to \$99,025,000 of outstanding special obligation bonds issued in 2003 and 2015 (the “Refunded Bonds”). NC State conservatively estimates that the transaction will save roughly \$5.7 million on a cash flow basis. After factoring in the cost to terminate NC State’s existing interest rate swaps associated with the Refunded Bonds, NC State expects that the transaction will be breakeven to slightly positive on a net present value basis (including the swap termination costs). NC State will finance the swap termination payments with cash.

The 2018 Bonds will be sold in the public market on a negotiated basis by Barclays Capital Inc. and Morgan Stanley & Co. LLC.

NC State University is seeking authority to refund each series of bonds to streamline costs of issuance, provide NC State with maximum flexibility to take advantage of prevailing market conditions, and to eliminate the interest rate risk and basis risk associated with the Refunded Bonds and their related interest rate swaps.

NC State currently has an issuer credit rating of “Aa1” with a stable outlook by Moody’s Investors Service and an issuer credit rating of “AA” with a stable outlook by Standard & Poor’s. This transaction is expected to have no impact on NC State University’s credit rating.

Parker Poe Adams & Bernstein LLP is bond counsel, and First Tryon Advisors is the financial advisor.

It is recommended that the president of the University, or her designee, be authorized to sell the special obligation bonds through the attached resolution.

**RESOLUTION OF THE BOARD OF GOVERNORS OF THE UNIVERSITY OF  
NORTH CAROLINA AUTHORIZING THE ISSUANCE OF SPECIAL OBLIGATION  
BONDS TO REFUND SPECIAL OBLIGATION BONDS FOR NORTH CAROLINA  
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, North Carolina Agricultural and Technical State University, North Carolina Central University, North Carolina State University at Raleigh (“*NC State*”), University of North Carolina at Asheville, University of North Carolina at Chapel Hill, University of North Carolina at Charlotte, The University of North Carolina at Greensboro, The University of North Carolina at Pembroke, University of North Carolina Wilmington, University of North Carolina School of the Arts, Western Carolina University, and Winston-Salem State University, and other institutions; and

**WHEREAS**, the Board is authorized by Chapter 116D of the General Statutes of North Carolina (the “*Act*”) to issue, subject to the approval of the Director of the Budget, at one time or from time to time, (1) special obligation bonds of the Board for the purpose of paying all or any part of the cost of acquiring, constructing, or providing special obligation projects and (2) refunding bonds for the purpose of refunding any bonds by the Board under the Act or under any Article of Chapter 116 of the General Statutes of North Carolina, 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 determined to issue North Carolina State University General Revenue Refunding Bonds (with appropriate description and series designation) (the “*Bonds*”) in an aggregate principal amount not to exceed \$100,000,000 to refund (1) North Carolina State University at Raleigh Variable Rate General Revenue Bonds, Series 2003B (the “*2003B Bonds*”), the proceeds of which were used to finance special obligation bond projects and refund prior bonds issued to finance special obligation projects at NC State and (2) North Carolina State University at Raleigh Variable Rate General Revenue Refunding Bonds, Series 2015 (the “*2015 Bonds*”), the proceeds of which were used to refund prior bonds issued to finance special obligation projects at NC State; and

**WHEREAS**, the Board has determined to issue the Bonds under a General Trust Indenture dated as of October 1, 2001 (the “*General Indenture*”) between the Board and The Bank of New York, the successor to which is U.S. Bank National Association, as trustee (the “*Trustee*”), and Series Indenture, Number 14 (the “*Fourteenth Series Indenture*”) between the Board and the Trustee; and

**WHEREAS**, the Bonds and other obligations issued under the 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 of the Board with respect to NC State as of the date of the General Indenture, 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 General Indenture) and (5) funds restricted by law (the “*Available Funds*”); and

**WHEREAS**, Barclays Capital Inc. and Morgan Stanley & Co. LLC (the “*Underwriters*”) will agree to purchase all of the Bonds pursuant to the terms of a bond purchase agreement (the “*Purchase Agreement*”) between the Board and the Underwriters; and

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**WHEREAS**, there have been made available to the Board forms of the following documents (the “*Board Documents*”), which the Board proposes to approve, ratify, execute and deliver, as applicable, to effectuate the financing; and

1. the General Indenture;
2. the Fourteenth Series Indenture;
3. the Purchase Agreement;
4. the Preliminary Official Statement (the “*Preliminary Official Statement*”) relating to the Bonds, which after the inclusion of certain pricing and other information will become the final Official Statement (the “*Official Statement*”) relating to the Bonds; and
5. the Bonds in the form set forth in the Fourteenth Series Indenture; and

**WHEREAS**, the issuance of the Bonds does not directly or indirectly or contingently obligate the State or any agency or political subdivision of the State to levy or to pledge any taxes to pay the cost, in whole or in part, of the Special Obligation Bond Project in compliance with Section 116D-23 of the Act; and

**WHEREAS**, in connection with the issuance of the Bonds and the refunding of the 2003B Bonds and the 2015 Bonds, NC State has determined it is in its best interest to terminate the interest rate swap agreement with Bank of America, N.A. (the “*BoA Swap Agreement*”) that currently hedges NC State’s interest rate risk related to the 2003B Bonds and the interest rate swap agreement with JP Morgan Chase Bank, N.A. (the “*JP Morgan Swap Agreement*”) and collectively with the BoA Swap Agreement, the “*Swap Agreements*”) that currently hedges NC State’s interest rate risk related to the 2015 Bonds and NC State intends to use its currently available non-appropriated funds to pay the termination payment related to the Swap Agreements;

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

Section 1. ***Authorization of Bonds.*** That the Board hereby authorizes the issuance of the Bonds in an aggregate principal amount not to exceed \$100,000,000 under the General Indenture and the Fourteenth Series Indenture to refund the 2003B Bonds and the 2015 Bonds and to pay the costs incurred in connection with the issuance of the Bonds. The Bonds may be issued in one or more series of bonds, including any combination of tax-exempt bonds and taxable bonds as the Senior Vice President for Finance and Budget, or his designee, in consultation with the appropriate officers at NC State, determine to be in the best interest of the University and NC State.

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

Section 3. ***Authorization of Board Documents.*** That the form and content of the Board Documents be and the same hereby are in all respects authorized, approved and confirmed, and the Chairman of the Board, the President of the University, the Senior Vice President for Finance and Budget, the Secretary and the Assistant Secretary of the Board and the Senior Associate Vice President and Secretary of the University, including anyone serving in an interim capacity (the “*Authorized Officers*”), be and they hereby are each authorized, empowered and directed to execute and deliver the Board Documents for and on behalf of the Board, 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 Board Documents the Authorized

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Officers are each 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 Board Documents as executed.

Section 4. ***Authorization of Preliminary Official Statement and Official Statement.*** That the form, terms and content of the Preliminary Official Statement be and the same hereby are in all respects authorized, approved and confirmed, and the use of the Preliminary Official Statement by the Underwriters in connection with the sale of the Bonds is hereby in all respects authorized, approved, ratified and confirmed. The Authorized Officers are authorized, empowered and directed to deliver the Official Statement for and on behalf of the Board in substantially the form and content of the Preliminary Official Statement presented to the Board, but with such changes, modifications, additions or deletions therein as to them seem necessary, desirable or appropriate, their execution of the Purchase Agreement to constitute conclusive evidence of the Board's approval of any and all such changes, modifications, additions or deletions therein, and the use of the Official Statement by the Underwriters in connection with the sale of the Bonds with investors is hereby authorized, approved and confirmed.

Section 5. ***Authorization of Swap Termination.*** That the Board authorizes the Authorized Officers and the Vice Chancellor of Finance and Administration at NC State to terminate the Swap Agreements and use currently available non-appropriated funds of NC State to pay the termination payment related to the Swap Agreements. The Authorized Officers and the Vice Chancellor of Finance and Administration at NC State be and they hereby are each authorized, empowered and directed to execute and deliver such documentation as shall to them seem necessary, desirable or appropriate to effect the termination of the Swap Agreements.

Section 6. ***General Authority.*** From and after the execution and delivery of the documents hereinabove authorized, the Authorized Officers are each 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 the issuance and on-going administration of the Bonds. Any provision in this Resolution that authorizes more than one officer to take certain actions will be read to permit such officers to take the authorized actions either individually or collectively.

Section 7. ***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 8. ***Effective Date.*** This Resolution is effective immediately on the date of its adoption.

*PASSED, ADOPTED, AND APPROVED* this 24th day of May, 2018.