

Sale of Special Obligation Bonds – University of North Carolina Hospitals

ISSUE OVERVIEW

The Board of Governors is authorized to issue revenue bonds and bond anticipation notes for capital improvements projects that have been approved by the General Assembly. These revenue bonds are payable solely from the revenues generated by the operations of UNC Hospitals at Chapel Hill (UNC Hospitals).

UNC Hospitals requests that the Board issue revenue bonds in an amount not to exceed \$150,000,000 as the second tranche of funding for the purpose of constructing a new surgical pavilion to replace 19 operating rooms that were originally opened in September 1952. Given the date of their design and the significant changes in technologies during the past 65 years, the current operating rooms are inadequate to accommodate some of today's equipment and the number of health care personnel required to assist in various types of complex surgical procedures. In addition to the need to replace these operating rooms, support spaces need to be enhanced and enlarged as well. Family waiting spaces work best when they are adequate in size, proximate to the operating rooms, and offer amenities to keep families comfortable while enduring the stresses of having a loved one undergo surgery.

This new facility will feature seven levels and connect to the existing North Carolina Memorial Hospital at three levels. The building will be approximately 335,000 sq. ft. in size and have a separate entrance to facilitate more efficient and easier way finding. The current project schedule anticipates that construction will be completed in calendar year 2022.

UNC Hospitals currently has issuer credit ratings of AA, stable outlook from Standard & Poor's Global Ratings and Aa3 from Moody's Investor Service. Womble Bond Dickinson (US) LLP is bond counsel; Bank of America Merrill Lynch is senior managing underwriter, with Morgan Stanley and Wells Fargo Securities as co-managing underwriters. Ponder & Co. is the financial advisor. The UNC Health Care System Board will approve this transaction at its September 16, 2019 meeting.

RECOMMENDATION

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

RESOLUTION OF THE BOARD OF GOVERNORS

RESOLUTION AUTHORIZING THE SALE AND ISSUANCE BY THE BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA OF NOT TO EXCEED \$150,000,000 AGGREGATE PRINCIPAL AMOUNT OF UNIVERSITY OF NORTH CAROLINA HOSPITALS AT CHAPEL HILL REVENUE BONDS AND APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF CERTAIN OTHER DOCUMENTS IN CONNECTION THEREWITH

WHEREAS, pursuant to 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 the University of North Carolina Hospitals at Chapel Hill (“UNC Hospitals”) and other institutions;

WHEREAS, pursuant to Section 116-37, as amended, of the General Statutes of North Carolina, there has been created as an affiliated enterprise of the University, the University of North Carolina Health Care System (the “UNC Health Care System”), and a board of directors of the UNC Health Care System, as a successor board to the board of directors of UNC Hospitals, which is charged with the responsibility for making rules, regulations and policies governing the management and operation of the UNC Health Care System, including UNC Hospitals;

WHEREAS, the Board is authorized by Sections 116-187 to 116-198, inclusive, of the General Statutes of North Carolina, as amended (the “Act”), to issue, subject to the approval of the Director of the Budget of the State of North Carolina, at one time or from time to time revenue bonds of the Board for the purpose of financing the cost of facilities and programs for the UNC Health Care System and UNC Hospitals;

WHEREAS, the Board is authorized by the Act to enter into all contracts and agreements necessary or incidental to the performance of its duties and the execution of its powers under the Act;

WHEREAS, the Board has determined that a need exists to finance the acquisition, construction, installation and equipping of certain capital improvements for UNC Hospitals, including, but not limited to, (a) the construction and equipping of a new surgical pavilion building to replace operating suites and associated support facilities, (b) the renovation and equipping of vacated space when the existing operating suites are relocated to the new surgical pavilion building and (c) the relocation and construction of improvements to the emergency power supply system and chilled water system (collectively, the “Project”), and pursuant to Chapter 97 of the 2016 Sessions Laws (effective July 18, 2016), the General Assembly has authorized and approved the financing of the cost of planning, designing, acquiring, constructing, renovating, equipping, and furnishing the Project;

WHEREAS, pursuant to a General Trust Indenture, dated as of January 1, 1992 (as supplemented and amended, the “General Indenture”), between the Board and First Union National Bank of North Carolina (succeeded by U.S. Bank National Association), as trustee (the “Trustee”), and as accepted and agreed to by UNC Hospitals, and a Series Indenture Number 9,

dated as of December 1, 2016, between the Board and the Trustee, and as accepted and agreed to by UNC Hospitals the Board has heretofore issued its revenue bonds designated “University of North Carolina Hospitals at Chapel Hill Revenue Bonds, Series 2016” (the “Series 2016 Bonds”) in the aggregate principal amount of \$99,945,000 for the purpose of providing funds, together with any other available funds, to (a) pay certain initial costs of the Project and (b) pay the fees and expenses incurred in connection with the sale and issuance of the Series 2016 Bonds;

WHEREAS, in order to provide funds, together with any other available funds, to (a) pay the remaining costs of the Project and (b) pay the fees and expenses incurred in connection with the sale and issuance of the Series 2019 Bonds (hereinafter defined), the Board desires to issue its revenue bonds in an aggregate principal amount not to exceed \$150,000,000 to be designated “University of North Carolina Hospitals at Chapel Hill Revenue Bonds, Series 2019” (the “Series 2019 Bonds”), pursuant to the terms of the “General Indenture and a Series Indenture Number 10, to be dated as of December 1, 2019 (the “Series Indenture”), between the Board and the Trustee, and as accepted and agreed to by UNC Hospitals;

WHEREAS, arrangements have been made for the sale of the Series 2019 Bonds to BofA Securities, Inc., Morgan Stanley & Co. LLC and Wells Fargo Bank, National Association (the “Underwriters”) pursuant to a Bond Purchase Agreement, to be dated as of the date of delivery thereof (the “Bond Purchase Agreement”), among the Board, UNC Hospitals and the Underwriters; and

WHEREAS, there have been presented to the Board forms of the following documents relating to the transactions described above, which forms the Board proposes to authorize and approve, and to execute and deliver, as applicable, to effectuate the financing as described above:

(a) the Series Indenture;

(b) the Bond Purchase Agreement; and

(c) the Preliminary Official Statement, to be dated as of the date of delivery thereof (the “Preliminary Official Statement”), relating to the offering and sale of the Series 2019 Bonds;

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

Section 1. Pursuant to the provisions of the Act, the Board hereby authorizes the execution, issuance and delivery of the Series 2019 Bonds in an aggregate principal amount not to exceed \$150,000,000. The Series 2019 Bonds shall be in substantially the form set forth in the Series Indenture presented to the Board at this meeting, subject to such modifications as the Chair, the Vice Chair or the Secretary of the Board, with the advice of counsel, may deem necessary and appropriate in order to comply with the provisions of the General Indenture and the Series Indenture. The Series 2019 Bonds shall mature at such times and in such amounts and shall contain such other terms as shall be set forth in the Series Indenture, subject to the provisions of this Resolution.

Section 2. The Series 2019 Bonds shall be dated as of the date of delivery thereof, shall be initially issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof and shall be issued pursuant to a book-entry system, all as provided in the Series Indenture. Interest on the Series 2019 Bonds shall be payable on February 1 and August 1 of each year, beginning August 1, 2020, until the payment in full of the principal thereof. The final maturity of the Series 2019 Bonds shall not exceed February 1, 2049. The Series 2019 Bonds shall be subject to redemption at the times, upon the terms and conditions and at the prices as shall be set forth in the Series Indenture. The proceeds of the Series 2019 Bonds shall be applied as provided in the Series Indenture. The Series 2019 Bonds, together with any Bonds heretofore or hereafter issued and remaining Outstanding (as defined in the General Indenture) under the provisions of the General Indenture, shall be secured on a parity basis by a pledge and lien upon the Revenues (as defined in the General Indenture) and certain other moneys made available therefor under the General Indenture, in the manner and to the extent provided in the General Indenture.

Section 3. The proposal set forth in the Bond Purchase Agreement submitted by the Underwriters offering to purchase the Series 2019 Bonds at the aggregate purchase price and bearing interest at the rates to be set forth therein is hereby approved, provided that the purchase price for the Series 2019 Bonds shall not be less than 99% of the aggregate principal amount of the Series 2019 Bonds (not taking into account any original issue discount or premium), plus accrued interest, if any, from the date of the Series 2019 Bonds to the date of delivery of the Series 2019 Bonds, and such interest rates shall not result in a true interest cost in excess of 5.00%. The Series 2019 Bonds may be sold and awarded to the Underwriters, subject to the approval of UNC Hospitals, in accordance with the terms and provisions set forth in the Bond Purchase Agreement. The Chair and Vice Chair of the Board and the Senior Vice President for Finance and Administration of the University are each hereby individually designated to approve, on behalf of the Board, the sale of the Series 2019 Bonds to the Underwriters at such interest rates, for such purchase price and upon such terms and conditions as such person, with the advice of counsel, shall determine as set forth in the Bond Purchase Agreement, subject to the provisions of this Resolution. The Chair and Vice Chair of the Board and the Senior Vice President for Finance and Administration of the University are each hereby individually authorized and directed to execute and deliver the Bond Purchase Agreement, in the name of and on behalf of the Board, in substantially the form presented to the Board at this meeting, together with such modifications as the person executing the Bond Purchase Agreement shall, with the advice of counsel, deem necessary or appropriate, such execution and delivery thereof to be conclusive evidence of the approval and authorization in all respects of the form and content thereof.

Section 4. The form, terms and content of the Series Indenture are in all respects authorized and approved, and the Chair and Vice Chair of the Board and the Senior Vice President for Finance and Administration of the University are each hereby individually authorized and directed to execute and deliver the Series Indenture, in the name of and on behalf of the Board, in substantially the form presented to the Board at this meeting with such modifications as the person executing the Series Indenture shall, with the advice of counsel, deem necessary or appropriate, such execution and delivery thereof to be conclusive evidence of the approval and authorization in all respects of the form and content thereof. The Secretary or any Assistant Secretary of the University shall be authorized to affix the official seal of the Board to the Series Indenture and to attest the same as may be required.

Section 5. The Preliminary Official Statement relating to the offering for sale of the Series 2019 Bonds is hereby authorized and approved. The Board hereby authorizes the use and distribution of the Preliminary Official Statement by the Underwriters in substantially the form presented to the Board at this meeting, together with such modifications as the Chair or Vice Chair of the Board or the Senior Vice President for Finance and Administration of the University shall, with advice of counsel, deem necessary or appropriate. The Board hereby authorizes and consents to the preparation and distribution by the Underwriters of a final Official Statement, in substantially the form of the Preliminary Official Statement, together with such changes as are necessary to reflect the final terms of the Series 2019 Bonds. The Chair and Vice Chair of the Board and the Senior Vice President for Finance and Administration of the University are each hereby individually authorized and directed to execute and deliver the final Official Statement, in the name of and on behalf of the Board, in substantially the form of the Preliminary Official Statement, together with such modifications as the person executing the final Official Statement shall, with the advice of counsel, deem necessary or appropriate, such execution and delivery to be conclusive evidence of the approval and authorization in all respects of the form and content thereof.

Section 6. The officers of the Board and the University are hereby authorized to execute and deliver for and on behalf of the Board any and all additional certificates, documents, opinions or other papers, and to perform all other acts as may be required by the documents contemplated above or as they may deem necessary or appropriate in order to implement and carry out the intent and purposes of this Resolution.

Section 7. The officers, agents and employees of the Board and the University are hereby authorized and directed to do all acts and things required of them by the provisions of this Resolution, the Series 2019 Bonds, the General Indenture, the Series Indenture or the Bond Purchase Agreement for the full, punctual and complete performance of the terms, covenants, provisions and agreements of the same.

Section 8. This Resolution shall become effective on the date of its adoption.

ADOPTED this 20th day of September, 2019.

Pearl Burris-Floyd
Secretary
The University of North Carolina