

Sale of Revenue Refunding Bonds – UNC Hospitals

ISSUE OVERVIEW

UNC Hospitals is requesting that the Board of Governors issue revenue refunding bonds (“2021A Bonds”), not to exceed \$28,280,000, for the purpose of refunding the callable portion of the 2010B fixed-rate Build America Bonds (“2010B Bonds”). The 2021A Bonds will be secured on a parity basis by a pledge and lien on certain UNC Hospital revenues as defined in the General Indenture.

UNC Hospitals has \$30,595,000 outstanding of the 2010B Bonds. After the principal payment on February 1, 2021, \$28,280,000 of these bonds are callable at par and have a final maturity of February 1, 2031. The 2021A bonds will be used to refund the 2010B Bonds, which were issued to finance capital projects previously approved by the UNC Hospitals Board. UNC Hospitals intends to pay the fees and expenses incurred in connection with the sale and issuance of the Series 2021A Bonds.

Since the 2010B Bonds were issued as taxable “Build America Bonds” under the American Recovery and Reinvestment Act of 2009, UNC Hospitals pays a taxable rate of interest on the 2010B Bonds, but receives a subsidy payment from the federal government equal to a percentage of each interest payment. The subsidy, which was originally set at 35 percent of each interest payment, has been reduced in recent years due to federal budget sequestration. In addition to the anticipated savings described below, refinancing the 2010B Bonds with traditional, tax-exempt bonds will eliminate the risk associated with any further reduction or elimination of the federal subsidy payments.

UNC Hospitals ran a comprehensive request for proposal process and selected JP Morgan. Due to the favorable interest rate environment, the contract of purchase with JPMorgan for the 2021A Bonds creates an opportunity for UNC Hospitals to lower borrowing costs of the existing bonds from 4.03 percent to 1.76 percent. This will allow UNC Hospitals to realize debt service savings of approximately \$3.5 million on a total net present value basis (12.2 percent of refunded par).

UNC Hospitals currently has ratings of AA with a stable outlook from Standard & Poor’s and Aa3 with a stable outlook from Moody’s. UNC Hospitals is not rated by Fitch. The proposed transaction is expected to have no impact on UNC Hospitals’ credit rating.

Womble Bond Dickinson (US) LLP is serving as bond counsel and Ponder & Co. is serving as financial advisor for the transaction.

RECOMMENDATION

It is recommended that the Board of Governors authorize the sale and issuance of the revenue refunding 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 \$28,280,000 AGGREGATE PRINCIPAL AMOUNT OF BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA UNIVERSITY OF NORTH CAROLINA HOSPITALS AT CHAPEL HILL REVENUE REFUNDING BONDS, SERIES 2021A 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 of The University of North Carolina (the “Board of Governors”) 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, the University of North Carolina Health Care System (the “UNC Health Care System”) has been created as an affiliated enterprise of the University of North Carolina, and a board of directors of the UNC Health Care System, as a successor board to the board of directors of UNC Hospitals, has been created 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 of Governors 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 of Governors for the purpose of refunding any revenue bonds issued by the Board of Governors under the Act, including the payment of any redemption premium thereon and any interest accrued to the date of redemption of such bonds;

WHEREAS, the Board of Governors 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 of Governors has heretofore issued \$43,290,000 University of North Carolina Hospitals at Chapel Hill Revenue Bonds, Series 2010B (Build America Bonds) (the “Series 2010B Bonds”), of which \$30,595,000 principal amount is currently outstanding;

WHEREAS, the Board of Governors desires to issue revenue refunding bonds on behalf of UNC Hospitals pursuant to the Act for the purpose of refunding all of the outstanding Series 2010B Bonds maturing on and after February 1, 2022 (the “Refunded Bonds”) in order to achieve debt service savings;

WHEREAS, under the proposed refunding plan, the Board of Governors has determined to issue revenue refunding bonds in an aggregate principal amount of not to exceed \$28,280,000 designated

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“Board of Governors of the University of North Carolina University of North Carolina Hospitals Revenue Refunding Bonds, Series 2021A (the “Series 2021A Bonds”) for the purpose of providing funds, together with other available funds, (a) to refund the Refunded Bonds and (b) pay the fees and expenses incurred in connection with the sale and issuance of the Series 2021A Bonds;

WHEREAS, the Series 2021A Bonds will be issued pursuant to the terms of a General Trust Indenture, dated as of January 1, 1992 (as supplemented and amended, the “General Indenture”), between the Board of Governors 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 11, to be dated as of February 1, 2021 or such other date mutually agreeable to the parties (the “Series Indenture”), between the Board of Governors and the Trustee, and as accepted and agreed to by UNC Hospitals;

WHEREAS, arrangements have been made for the direct purchase of the Series 2021A Bonds by JPMorgan Chase Bank, National Association (the “Purchaser”) pursuant to a Contract of Purchase, to be dated as of February 1, 2021 or such other date mutually agreeable to the parties (the “Contract of Purchase”), among the Board of Governors, UNC Hospitals and the Purchaser; and

WHEREAS, there have been presented to the Board of Governors forms of the following documents relating to the transactions described above, which forms the Board of Governors 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 Contract of Purchase; and

(c) the Continuing Covenants Agreement, to be dated as of February 1, 2021 or such other date as is mutually agreeable to the parties (the “Continuing Covenants Agreement”), among the Board of Governors, UNC Hospitals and the Purchaser;

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

Section 1. Pursuant to the provisions of the Act, the Board of Governors hereby authorizes the sale, issuance and delivery of the Series 2021A Bonds in an aggregate principal amount not to exceed \$28,280,000. The Series 2021A Bonds shall be in substantially the form set forth in the Series Indenture presented to the Board of Governors at this meeting, subject to such modifications as the Chair, the Vice Chair or the Secretary of the Board of Governors, 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 2021A 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 2021A Bonds shall be dated as of the date of delivery thereof and shall be initially issued as one fully registered bond to the Purchaser, all as provided in the Series Indenture.

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Interest on the Series 2021A Bonds shall be payable on February 1 and August 1 of each year, beginning August 1, 2021, until the payment in full of the principal thereof. The final maturity of the Series 2021A Bonds shall not exceed February 1, 2031. The Series 2021A 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 2021A Bonds shall be applied as provided in the Series Indenture. The Series 2021A 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 and the Series Indenture.

Section 3. The proposal set forth in the Contract of Purchase submitted by the Purchaser offering to purchase the Series 2021A Bonds at the aggregate purchase price and bearing interest at the rate to be set forth therein is hereby approved, provided that the interest rate on the Series 2021A Bonds shall not exceed 3.00% (subject to adjustment as provided in the Series Indenture). The Series 2021A Bonds may be sold and awarded to the Purchaser, subject to the approval of UNC Hospitals, in accordance with the terms and provisions set forth in the Contract of Purchase. The Chair and Vice Chair of the Board of Governors and the Senior Vice President for Finance and Administration and Chief Financial Officer of the University are each hereby individually designated to approve, on behalf of the Board of Governors, the sale of the Series 2021A Bonds to the Purchaser at such interest rate, 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 Contract of Purchase, subject to the provisions of this resolution. The Chair and Vice Chair of the Board of Governors and the Senior Vice President for Finance and Administration and Chief Financial Officer of the University are each hereby individually authorized and directed to execute and deliver the Contract of Purchase, in the name of and on behalf of the Board of Governors, in substantially the form presented to the Board of Governors at this meeting, together with such modifications as the person executing the Contract of Purchase 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 and the Continuing Covenants Agreement are in all respects authorized and approved, and the Chair and Vice Chair of the Board of Governors and the Senior Vice President for Finance and Administration and Chief Financial Officer of the University are each hereby individually authorized and directed to execute and deliver the Series Indenture and the Continuing Covenants Agreement, in the name of and on behalf of the Board of Governors, in substantially the forms presented to the Board of Governors at this meeting with such modifications as the person executing the Series Indenture and the Continuing Covenants 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. The Secretary or any Assistant Secretary of the University shall be authorized to affix the official seal of the Board of Governors to the Series Indenture and the Continuing Covenants Agreement and to attest the same as may be required. The Board of Governors also hereby authorizes and approves the execution and delivery of the Series Indenture and the Continuing Covenants Agreement by UNC Hospitals.

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Section 5. The Refunded Bonds are hereby called for redemption on February 1, 2021, in accordance with the General Indenture, Series Indenture Number 8, dated as of November 1, 2010 (“Series Indenture Number 8”), between the Board of Governors and the Trustee and accepted and agreed to by UNC Hospitals, and the Series 2010B Bonds. Such call for redemption shall be conditioned upon the issuance of the Series 2021A Bonds as provided in Series Indenture Number 8 and the Series 2010B Bonds. The providing of notice of redemption in the manner provided in the General Indenture, Series Indenture Number 8 and the Series 2010B Bonds is hereby authorized and approved.

Section 6. The officers of the Board of Governors and the University are hereby authorized to execute and deliver for and on behalf of the Board of Governors 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 of Governors 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 2021A Bonds, the General Indenture, the Series Indenture, the Continuing Covenants Agreement or the Contract of Purchase 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 22nd day of October, 2020.

Meredith R. McCullen
Secretary
The University of North Carolina System