THE UNIVERSITY OF NORTH CAROLINA SYSTEM

MEETING OF THE BOARD OF GOVERNORS
Committee on Budget and Finance

May 26, 2021 at 10:45 a.m.
Via Videoconference and PBS North Carolina Live Stream
University of North Carolina System Office
Center for School Leadership Development, Board Room
Chapel Hill, North Carolina

AGENDA

A-1. Approval of the April 21, 2021 Minutes ..... James L. Holmes

A-2. 2019-20 Consolidated Financial Report, Part 2 ..... Jennifer Haygood

A-3. All-Funds Budget Update ..... Jonathan Pruitt and Nate Knuffman

A-4. Report on FY 2020 UNC System Debt Capacity Study ..... Jennifer Haygood

A-5. Establishment of For-Profit Associated Entity – UNC-Chapel Hill ..... Jennifer Haygood

A-6. Capital Improvement Projects ..... Katherine Lynn

A-7. Disposition of Property by Reallocation – NC State University ..... Katherine Lynn

A-8. Remarketing of Special Obligation Bonds – UNC-Chapel Hill ..... Jennifer Haygood

A-9. Sale of Special Obligation Bonds – UNC-Chapel Hill ..... Jennifer Haygood

A-10. Other Business ..... James L. Holmes, Jr.

A-11. Adjourn

Additional Information Available:

A-4. Report on FY 2020 UNC System Debt Capacity Study (full report)

DRAFT MINUTES

April 21, 2021 at 11:15 a.m.
Via Videoconference and PBS North Carolina Live Stream
University of North Carolina System Office
Center for School Leadership Development, Board Room
Chapel Hill, North Carolina

This meeting of the Committee on Budget and Finance was presided over by Chair James L. Holmes, Jr. The following committee members, constituting a quorum, were present in person, by video, or phone: W. Marty Kotis, III, J. Alex Mitchell, Wendy Floyd Murphy, and Michael Williford.

Michael Williford joined at 11:30 a.m.

Chancellors participating via videoconference were Sheri Everts, Kevin Guskiewicz, and Randy Woodson. Staff members present included Jennifer Haygood, Lindsay McCollum Farling, Katherine Lynn, and others from the UNC System Office.

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1. Call to Order and Approval of OPEN Session Minutes (Item A-1)

Chair James L. Holmes, Jr. called the meeting to order at 11:24 a.m., on April 21, 2021, and called for a motion to approve the open session minutes of February 17, 2021, for the regular meeting of the Committee on Budget and Finance.

MOTION: Resolved, that the Committee on Budget and Finance approve the open session minutes of February 17, 2021, for the regular meeting of the Committee on Budget and Finance, as distributed.
Motion: Wendy Floyd Murphy
Motion: Carried

Roll Call Vote	
Holmes	Yes
Kotis	Yes
Mitchell	Yes
Murphy	Yes
Williford	No Vote

2. Distance Education Definition for Fee-Charging Purposes (A-2)

Mrs. Murphy provided an update of the Task Force on Pricing, Flexibility, and Affordability. She shared its progress with the committee including defining distance education for fee-charging purposes and examining the pros and cons of the current policies regarding student fee revenues. The task force recommended, for fee-charging purposes, defining a distance education program as one designed to deliver 80 percent or more of the direct instruction through distance education or off-campus, as defined in Section 400.1.1 of the UNC Policy Manual. Distance education students are only required to pay Campus Security, Educational and Technology, and Association of Student Government fees, and will not have access to services and activities supported by the other Board-approved mandatory fees unless they pay the appropriate additional fee. The proposed definition, which will be effective fall 2022, was adopted and the UNC System Office staff was directed to amend the policy on establishing tuition and fees accordingly for consideration by the committee and the full Board at a future meeting. The task force explored whether combining all student fee revenues would be useful or desirable in providing greater flexibility to institutions in spending those revenues. Mrs. Murphy noted that there was mixed support for combining student fee revenues due to transparency concerns. As an alternative, the task force is considering the opportunity to allow institutions one-time, targeted flexibility to shift fee revenues from one category to another to solve an urgent budget challenge. At the next meeting, the task force will examine student costs beyond tuition and fees such as room and board, books and supplies, and other components of the total cost of attendance.

MOTION: Resolved, that the Committee on Budget and Finance approve the distance education definition for fee-charging purposes and directed the UNC System staff to amend policy 1000.1.1, to be voted by the full Board of Governors at a future meeting.

Motion: Wendy Floyd Murphy
Motion: carried

Roll Call Vote	
Holmes	Yes
Kotis	Yes
Mitchell	Yes
Murphy	Yes
Williford	No Vote

3. 2019-20 UNC System Consolidated Financial Report (A-3)

Senior Vice President Jennifer Haygood highlighted the revenue and expenses of the 2019-20 UNC System Consolidated Financial Report. Due to time constraints, she will present the balance sheet trends and the cash position portions at the May Board meeting.

This item is for information only.

4. Report of Facilities & Administrative (F&A) Receipts, 2019-20 (A-4)

The 2019-20 Report of Facilities & Administrative (F&A) Receipts was reviewed by the committee. Ms. Haygood noted that the UNC System received $284.5 million in overhead receipts during the fiscal year and expended

$286.5 million. Of the expenditures, $46 million was used to provide for the maintenance and operation of facilities constructed with or operated by general fund appropriations. The System-wide ending fund balance supported by these receipts on June 30, 2020 was approximately $117 million.

This item is for information only.

5. Duties and Authorities of the President — Proposed Policy Change (A-5)

Ms. Haygood reminded the committee that to be consistent with previously approved recommendations from the Capital Construction Task Force, a proposed policy change to Section 600.1.1 of the UNC Policy Manual would allow the president to authorize capital project increases up to 10 percent over the originally awarded construction contract amount. The constituent institutions will submit the same documentation as required for Board approval, including designated funding sources. The amended policy would be taken to the full Board to adopt at its next meeting.

MOTION: Resolved, that the Committee on Budget and Finance approve the amended policy and recommend it to the full Board of Governors for a vote at its next meeting.

Motion: J. Alex Mitchell
Motion carried

Roll Call Vote	
Holmes	Yes
Kotis	Yes
Mitchell	Yes
Murphy	Yes
Williford	Yes

6. Designation of Millennial Campus — University of North Carolina at Asheville (Item A-4)

Ms. Haygood provided some general information on Millennial Campuses. Next, UNC Asheville's Chancellor Cable presented to the committee the institution's request for the designation of Millennial Campus to support UNCA's Revitalization Plan, the 30-year campus master plan, and the university's first ever 2020-28 comprehensive capital campaign. This designation would provide development flexibility, community engagement, innovative partnerships, and core academic mission support. The proposed properties have the potential for future development including a new performing arts center, the Osher Lifelong Learning Institute facility, a retail and mixed-use development, a conference center, improved athletic facilities, parking, affordable faculty housing, and other community-connected and academic initiatives. The request for Millennial Campus designation is approximately 210.17 acres.

MOTION: Resolved, that the Committee on Budget and Finance approve UNC Asheville's request for the designation of a Millennial Campus and recommend it to the full Board of Governors for a vote through the consent agenda.

Motion: Michael Williford
Motion carried

Roll Call Vote	
Holmes	Yes
Kotis	Yes
Mitchell	Yes
Murphy	Yes
Williford	Yes

7. Expansion of Millennial Campus — Appalachian State University (A-7)

Appalachian State University's Vice Chancellor for Business Affairs Paul Forte presented the institution's request for expansion of its Millennial Campus to add approximately 317 acres for the following purposes: (1) provide flexibility to enter into agreements with private sector firms for development, (2) issue bonds to finance development, and (3) earn revenue through leasing space to third parties. The committee approved both requests.

MOTION: Resolved, that the Committee on Budget and Finance approve Appalachian's request for the expansion of its Millennial Campus and recommend it to the full Board of Governors for a vote through the consent agenda.

Motion: Wendy Floyd Murphy
Motion carried

Roll Call Vote	
Holmes	Yes
Kotis	No
Mitchell	Yes
Murphy	Yes
Williford	Yes

8. Capital Improvement Projects — Elizabeth City State University, Fayetteville State University, N.C. A&T State University, NC Central University, NC State University, UNC Charlotte, and UNC Wilmington (Item A-8)

Senior Associate Vice President Katherine Lynn presented nine capital improvement projects from seven of the UNC System institutions, including four new projects and five requests for increased authorizations. Additionally, Ms. Lynn shared that two repairs and renovation projects costing less than $600,000 will be reported to the Board and Fiscal Research Division in compliance with G.S. 143C-8-13(d).

MOTION: Resolved, that the Committee on Budget and Finance approve the nine capital improvement projects requests from ECSU, FSU, N.C A&T, NCCU, NC State, UNCC, and UNCW and recommend them to the full Board of Governors for a vote through the consent agenda.

Motion: J. Alex Mitchell
Motion carried

Roll Call Vote	
Holmes	Yes
Kotis	Yes
Mitchell	Yes
Murphy	Yes
Williford	Yes

9. Disposition of Property by Demolition — Appalachian State University (Item A-9)

Ms. Lynn presented Appalachian State University's request for disposition of property by demolition of Coltrane and Gardner Residence Halls. The demolition is required to support Phase 3 of the public-private partnership (P3) new student housing project.

MOTION: Resolved, that the Committee on Budget and Finance approve Appalachian's request for disposition of property by demolition and recommend it to the full Board of Governors for a vote through the consent agenda.

Motion: Wendy Floyd Murphy
Motion carried

Roll Call Vote	
Holmes	Yes
Kotis	Yes
Mitchell	Yes
Murphy	Yes
Williford	Yes

10. Acquisition of Property by Deed and Disposition of Property by Demolition — N.C. A&T State University (Item A-10)

Ms. Lynn provided brief details of North Carolina A&T State University's request for the acquisition of property by deed of three properties located on Stedman Street and Arlee Street, and to demolish the existing structures for future campus expansion and the construction of new student housing.

MOTION: Resolved, that the Committee on Budget and Finance approve N.C. A&T's request for acquisition of property by deed and disposition of property by demolition and recommend it to the full Board of Governors for a vote through the consent agenda.

Motion: Michael Williford
Motion carried

Roll Call Vote	
Holmes	Yes
Kotis	No
Mitchell	Yes
Murphy	Yes
Williford	Yes

11. Amendment Use Agreement — Fayetteville State University (Item A-11)

Ms. Haygood presented Fayetteville State University's request for authorization to amend a previously approved use agreement related to the financing of the Renaissance Hall student housing facility on the campus of FSU, which was financed through the Fayetteville State University Housing, LLC, a university-affiliated nonprofit entity. Upon approval, the amendment would allow refunding of limited obligation bonds in an aggregate principal amount not to exceed $20 million for the purpose of (1) refunding the callable maturities of FSU's Limited Obligation Bonds, Series 2011, and (2) paying costs of issuance related to the 2021 Bonds.

MOTION: Resolved, that the Committee on Budget and Finance approve FSU's request for amendment to a previously approved use agreement and recommend it to the full Board of Governors for a vote through the consent agenda.

Motion: J. Alex Mitchell
Motion carried

Roll Call Vote	
Holmes	Yes
Kotis	Yes
Mitchell	Yes
Murphy	Yes
Williford	Yes

12. Amendment Use Agreement — University of North Carolina School of the Arts (Item A-12)

Ms. Haygood presented the University of North Carolina School of the Arts' request for authorization to amend a previously approved use agreement related to the financing of the Center Stage student housing facility on the campus of UNCSA, which was financed through the University of North Carolina School of the Arts Housing Corporation, a university-affiliated nonprofit entity. Refinancing the 2015 Certificate of Participation (COP) will reflect UNCSA's lower payment obligations to Capital One with respect to the 2015 COP. In exchange for locking in a lower rate (from 2.99 percent to 2.00 percent). Capital One requires a waiver to the June 1, 2023, call provision.

MOTION: Resolved, that the Committee on Budget and Finance approve UNCSA's request for amendment to a previously approved use agreement and recommend it to the full Board of Governors for a vote through the consent agenda.

Motion: J. Alex Mitchell
Motion carried

Roll Call Vote	
Holmes	Yes
Kotis	Yes
Mitchell	Yes
Murphy	Yes
Williford	Yes

13. Sale of Special Obligation Bonds — Appalachian State University (Item A-13)

Ms. Haygood presented Appalachian State University's request for authorization to issue special obligation bonds in a principal amount not to exceed $17 million for the purpose of (1) refunding the callable maturities of Appalachian's General Revenue Refunding Bonds, Series 2012, and (2) paying costs of issuance with respect to the 2022 Bonds.

MOTION: Resolved, that the Committee on Budget and Finance approve Appalachian's request for sale of special obligation bonds and recommend it to the full Board of Governors for a vote through the consent agenda.

Motion: Michael Williford
Motion carried

Roll Call Vote	
Holmes	Yes
Kotis	Yes
Mitchell	Yes
Murphy	Yes
Williford	Yes

14. Sale of Special Obligation Bonds — East Carolina University (Item A-14)

Ms. Haygood presented East Carolina University's request for authorization to issue special obligation bonds in a principal amount not to exceed $50,450,000 for the purpose of (1) refunding the callable maturities of ECU's General Revenue Bonds, Series 2014A, and (2) paying costs of issuance related to the 2021 Bonds.

MOTION: Resolved, that the Committee on Budget and Finance approve ECU's request for sale of special obligation bonds and recommend it to the full Board of Governors for a vote through the consent agenda.

Motion: Michael Williford
Motion carried

Roll Call Vote	
Holmes	Yes
Kotis	Yes
Mitchell	Yes
Murphy	Yes
Williford	Yes

15. Sale of Special Obligation Bonds — The University of North Carolina at Greensboro (Item A-15)

Ms. Haygood presented The University of North Carolina at Greensboro's request for authorization to issue special obligation bonds in a principal amount not to exceed $16 million for the purpose of (1) refunding the callable maturities of (a) UNCG's General Revenue and Revenue Refunding Bonds, Series 2011, and (b) UNCG's General Revenue and Revenue Refunding Bonds, Series 2012A; and (2) paying costs of issuance related to the 2021 Bonds.

MOTION: Resolved, that the Committee on Budget and Finance approve UNC Greensboro's request for sale of special obligation bonds and recommend it to the full Board of Governors for a vote through the consent agenda.

Motion: Michael Williford
Motion carried

Roll Call Vote	
Holmes	Yes
Kotis	Yes
Mitchell	Yes
Murphy	Yes
Williford	Yes

16. 2021-22 Non-Appropriated Capital Improvement Project — The University of North Carolina at Greensboro (Item A-16)

Ms. Haygood presented The University of North Carolina at Greensboro's request for approval of a non-appropriated (self-liquidating) capital improvement project for The Arts Place at Tate and Gate project, estimated to cost $10,330,306. This request was submitted outside the normal cycle due to an unanticipated opportunity to finance the project with bond savings realized from refunding existing debt. Upon full Board approval, the project will be submitted for legislative approval.

MOTION: Resolved, that the Committee on Budget and Finance approve UNCG's request for a non-appropriated (self-liquidating) capital improvement project and recommend it to the full Board of Governors for a vote through the consent agenda.

Motion: Michael Williford
Motion carried

Roll Call Vote	
Holmes	Yes
Kotis	Yes
Mitchell	Yes
Murphy	Yes
Williford	Yes

There being no further business and without objection, the meeting adjourned at 1:25 p.m.

_____
Michael Williford, Secretary

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

MEETING OF THE BOARD OF GOVERNORS
Committee on Budget and Finance
May 26, 2021

AGENDA ITEM

A-2. 2019-20 UNC System Consolidated Financial Report (Part 2).....Jennifer Haygood

Situation: The University of North Carolina System is presenting a consolidated financial report for the year ended June 30, 2020.

Background: Historically, University financial information has been reported in two ways: 1) as a part of each institution's set of audited financial statements and 2) as a part of the greater Consolidated Annual Financial Report (CAFR) for the State of North Carolina. The UNC System Financial Report has been prepared to provide additional information since fiscal year 2015 on the current financial status of the University. This report includes a consolidation of the University of North Carolina System as a whole, a side-by-side comparison of institutional financial statements, selected disclosures, and other financially related information.

Assessment: The University of North Carolina System, excluding UNC Hospitals, recognized a $537.5 million increase in net position during the year, bringing ending net position to $6.1 billion. Cash increased by $271.8 million. Endowment funds within the UNC System have increased 73 percent in the last 10 years.

Action: This item is for information only.

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

CONSOLIDATED FINANCIAL REPORT: PART 2

Fiscal Year Ended: June 30, 2020

Board of Governors
Committee on Budget and Finance

May 26, 2021

Presentation Outline

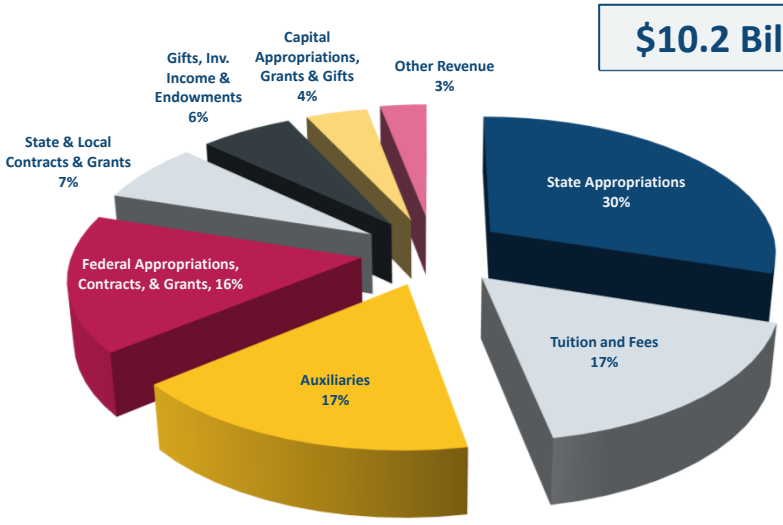
- Revenues and Expenses
- Balance Sheet Trends
- Cash Position

Revenues and Expenses

UNC System Revenues: FY 2020

(excluding UNC Hospitals)

$10.2 Billion

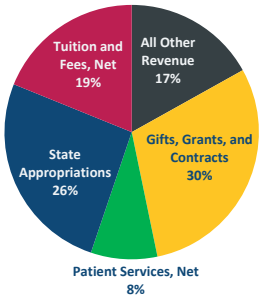


THE UNIVERSITY OF NORTH CAROLINA SYSTEM

Revenues by Campus Size: FY 2020

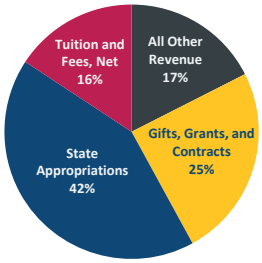
Large Universities

ASU, ECU, N.C. A&T, NC State, UNC-CH, UNCC, UNCG, UNCW



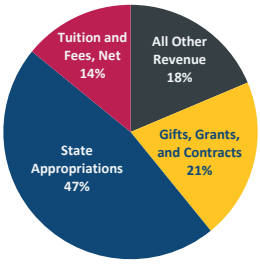
Medium Universities

FSU, NCCU, UNCA, UNCP, WCU, WSSU



Small Universities

ECSU, UNCSA



The Carnegie Classification has been used for the purpose of classifying the universities as small, medium, and large. The UNC System Office, North Carolina School of Science and Mathematics, and UNC Hospitals are not included in the classifications as these are not considered institutions of higher education. Therefore, these institutions are excluded from the above graphs.

UNC System Revenues: FY 2019-20

(excluding UNC Hospitals)

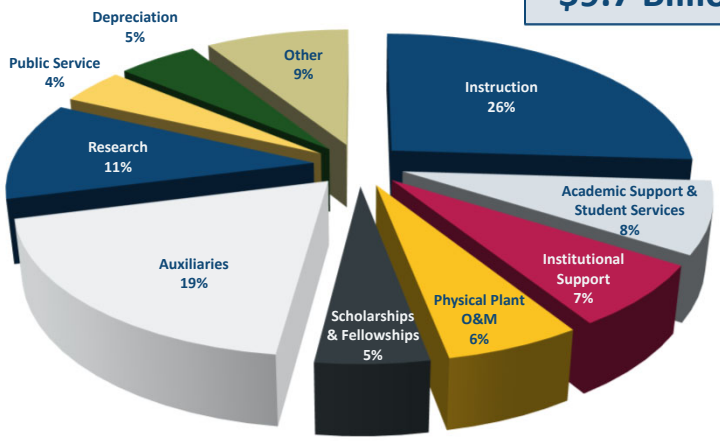
Revenues	FY 2019	FY 2020	Change	
State Appropriations	3,093,390,558	3,100,210,936	6,820,378	0.2%
Tuition & Fees	1,809,158,686	1,794,582,805	(14,575,881)	-0.8%
Auxiliaries	1,869,871,346	1,737,727,888	(132,143,458)	-7.1%
Federal Approp., Contracts & Grants	1,495,308,033	1,606,470,964	111,162,931	7.4%
State & Local Contracts & Grants	657,149,515	736,516,019	79,366,504	12.1%
Gifts, Inv. Income & Endowments	801,602,260	588,380,255	(213,222,005)	-26.6%
Capital Approp., Grants & Gifts	413,244,547	400,051,147	(13,193,400)	-3.2%
Other Revenue	382,438,875	276,358,284	(106,080,591)	-27.7%
Total	10,522,163,820	10,240,298,298	(281,865,522)	-2.7%

- **COVID-19 impacts:**
  - Student refunds in housing, dining, and parking
  - Off-cycle program (late spring) enrollment impacts
  - Gift and investment income declines
- **Impacts from no FY 2019-21 state budget:**
  - Minimal state operating and capital appropriations

UNC System Expenditures: FY 2020

(excluding UNC Hospitals)

$9.7 Billion



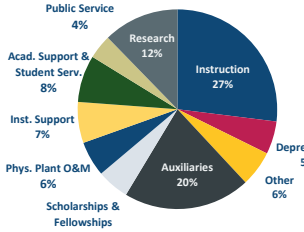
Note: Some research and private/endowment revenues are not available for immediate expenditure.

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

Expenses by Campus Size: FY 2020

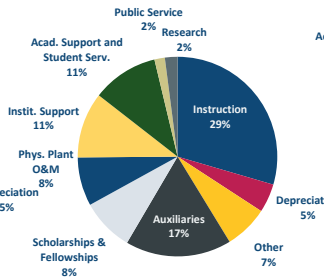
Large Universities

ASU, ECU, N.C. A&T, NC State, UNC-CH, UNCC, UNCG, UNCW



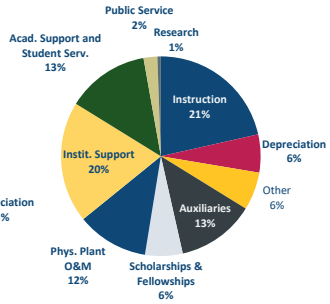
Medium Universities

FSU, NCCU, UNCA, UNCP, WCU, WSSU



Small Universities

ECSU, UNCSA



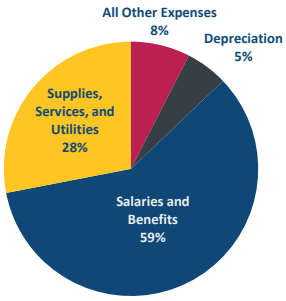
The Carnegie Classification has been used for the purpose of classifying the universities as small, medium, and large. The UNC System Office, North Carolina School of Science and Mathematics, and UNC Hospitals are not included in the classifications as these are not considered institutions of higher education. Therefore, these institutions are excluded from the above graphs.

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

Expenses by Campus Size: FY 2020

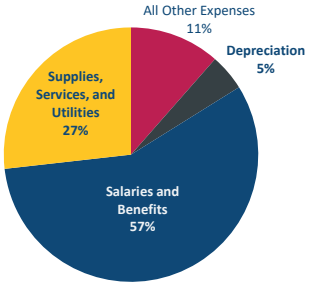
Large Universities

ASU, ECU, N.C. A&T, NC State, UNC-CH, UNCC, UNCG, UNCW



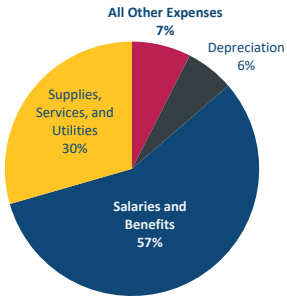
Medium Universities

FSU, NCCU, UNCA UNCP, WCU, WSSU



Small Universities

ECSU, UNCSA



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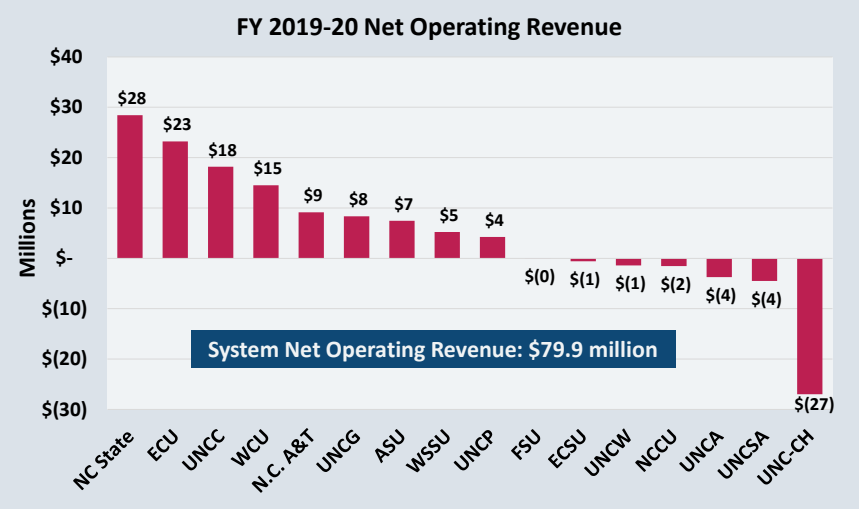
UNC System Expenses: FY 2019-20

(excluding UNC Hospitals)

Expenses	FY 2019	FY 2020	Change	
Instruction	2,532,923,796	2,524,411,634	(8,512,162)	-0.3%
Academic Support & Student Services	767,376,028	752,736,894	(14,639,134)	-1.9%
Institutional Support	690,423,512	710,126,141	19,702,629	2.9%
Physical Plant O&M	596,001,525	560,422,195	(35,579,330)	-6.0%
Scholarships & Fellowships	391,962,837	515,332,620	123,369,783	31.5%
Auxiliaries	1,839,951,189	1,854,707,351	14,756,162	0.8%
Research	1,022,224,336	1,018,378,377	(3,845,959)	-0.4%
Public Service	389,972,265	370,873,817	(19,098,448)	-4.9%
Depreciation	436,853,956	491,492,651	54,638,695	12.5%
Other	652,023,191	904,253,333	252,230,142	38.7%
Total	9,319,712,635	9,702,735,013	383,022,378	4.1%

- Decreases in expenses in most activities as a result of revenue declines.
- Increase in student aid as a result of federal emergency relief (HEERF I).
- Change in "Other" expenses due to large increase in pension expense.

Operating Performance: Net Operating Revenue



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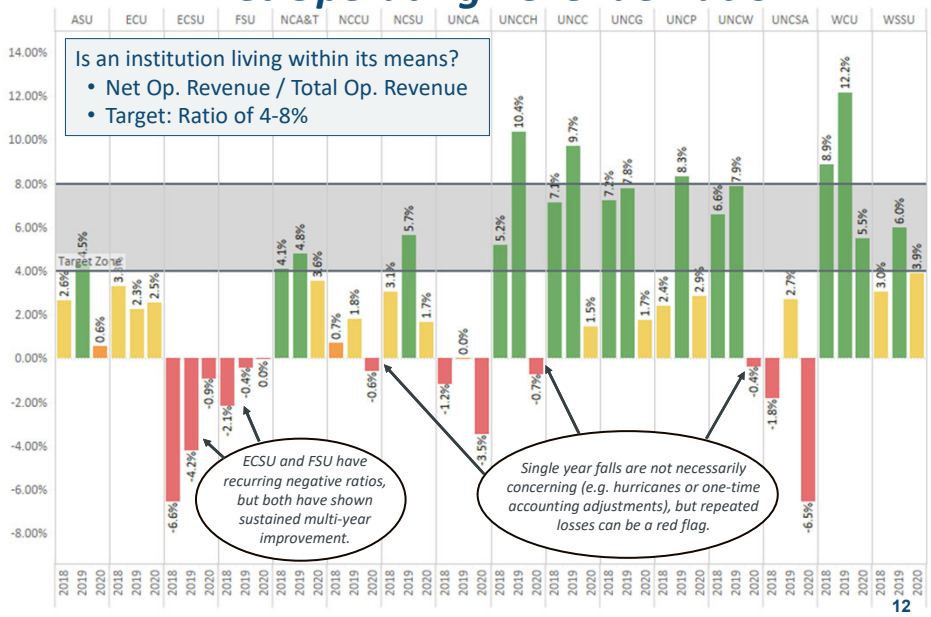
Net Operating Revenue is defined as Net Revenue before Capital Appropriations, Capital Contributions, and Additions to Endowments.

Operating Performance: Net Operating Revenue Ratio

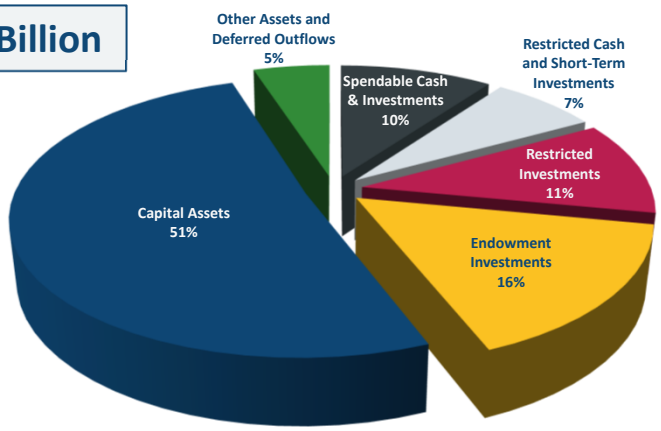


Balance Sheet Trends

UNC System Assets: FY 2020

(excluding UNC Hospitals)

$24.5 Billion



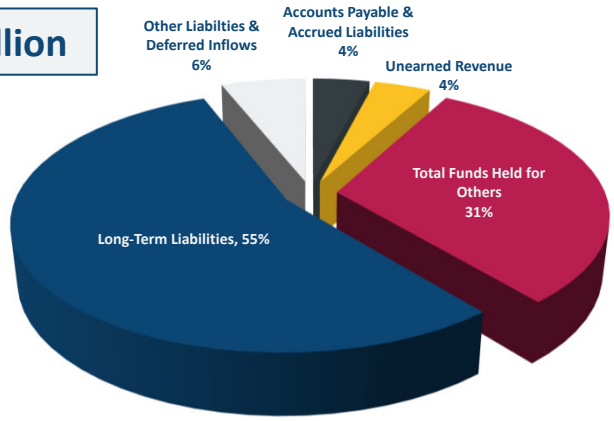
These balances have been adjusted to remove the effect of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions. They have been partially adjusted to remove the effect of inter-campus transactions (e.g., inter-institutional transfers and the UNC Investment Fund).

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

UNC System Liabilities: FY 2020

(excluding UNC Hospitals)

$9.3 Billion

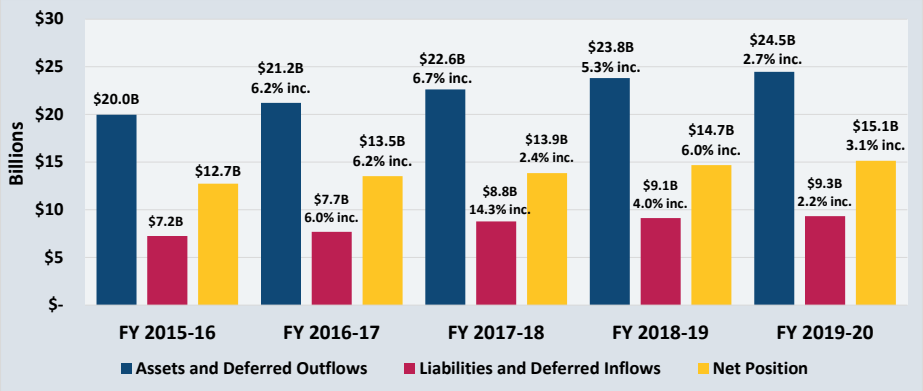


These balances have been adjusted to remove the effect of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions. They have been partially adjusted to remove the effect of inter-campus transactions (e.g., inter-institutional transfers and the UNC Investment Fund).

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

Balance Sheet Trends: FY 2016-20

Overall Balance Sheet Changes (excluding UNC Hospitals)



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In FY 2015-16, Capital Assets made up 53.6% of total assets and deferred outflows; in FY 2019-20, they made up 48.4%.

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

Net Position Defined

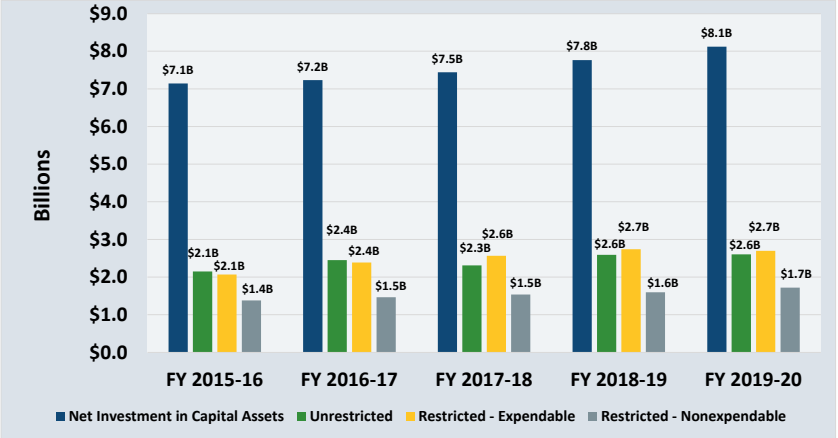
- Three Categories of Net Position:
  - Unrestricted Net Position
    - Not externally restricted by creditor, grantor, donor, or law but may be designated for specific use.
  - Restricted – Expendable
    - Generally, the return on an endowment principal; changes in these funds are correlated with market performance.
  - Restricted – Nonexpendable
    - Generally, the principal of an endowment which must be retained in perpetuity; these funds are correlated with charitable contributions.

Unrestricted Net Position Considerations

- Internally Designated Net Position – Defined
  - The designation must be expressed by (1) the institution itself or (2) a body (e.g., a budget or finance committee) or official to which the institution has delegated the authority to assign amounts to be used for specific purposes.
  - The designated funds represent planned actions and not actual commitments.
  - The designation can be subsequently modified or removed.
- Since universities have numerous programs and initiatives to accomplish their missions, they tend to have more types of internally designated net position than other organizations. Examples include:
  - Academic programs
  - Research programs
  - Student housing
  - Capital projects
  - Information technology
  - Recreational programs
  - Student relations
  - Trademarks and patents
  - Fundraising
  - Legal matters

Balance Sheet Trends FY 2016-20

Changes in Net Position (excluding UNC Hospitals)



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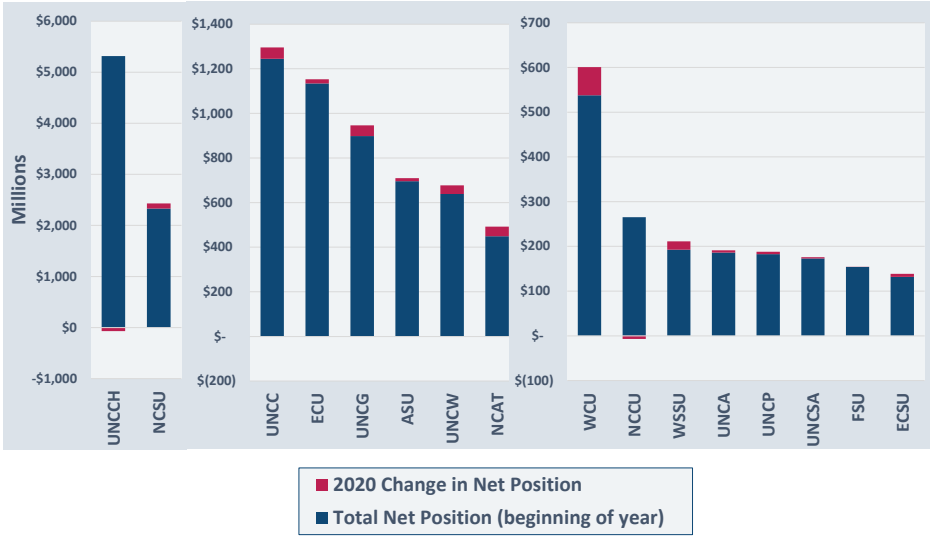
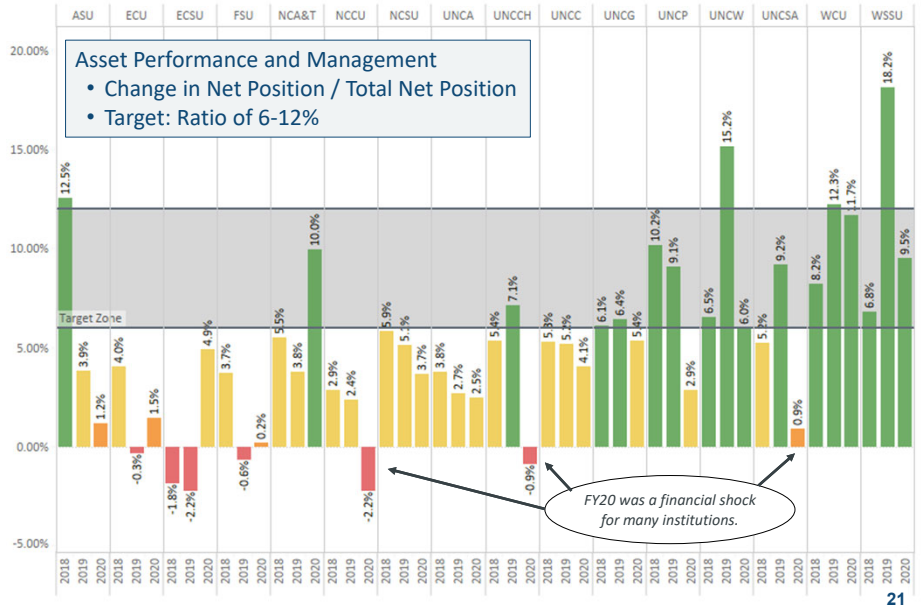
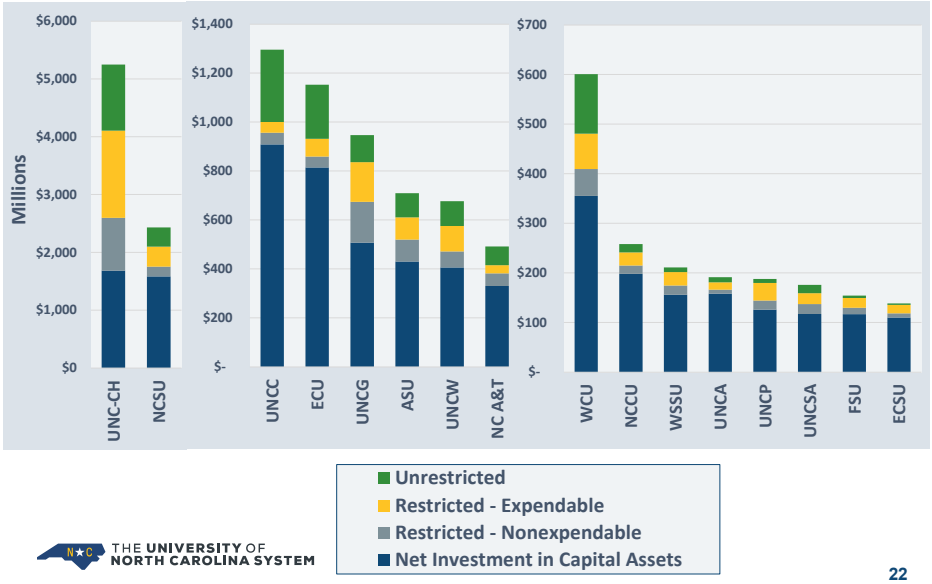
Operating Performance: Change in Net Position



Operating Performance: Return on Net Position Ratio

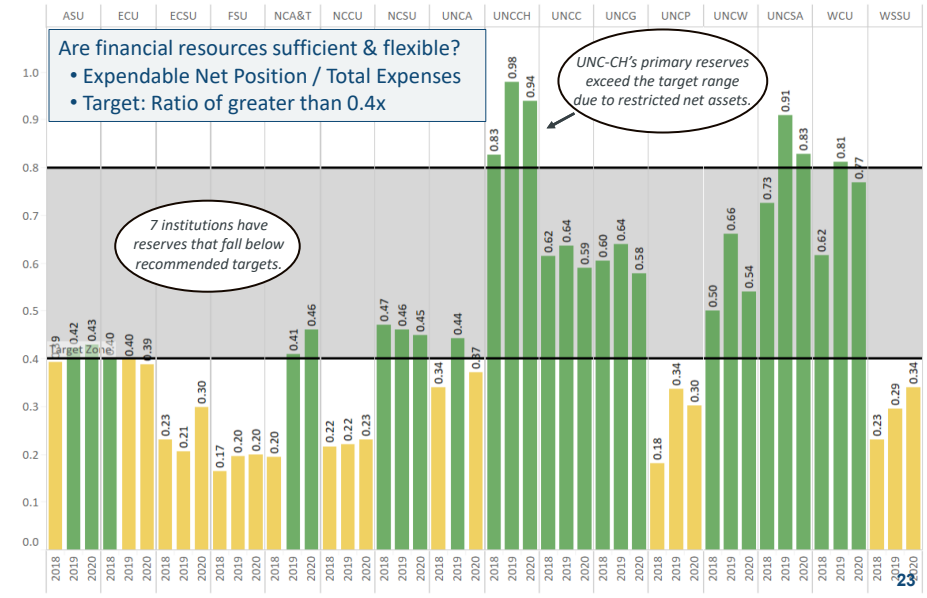


Financial Resources: Expendable Net Position

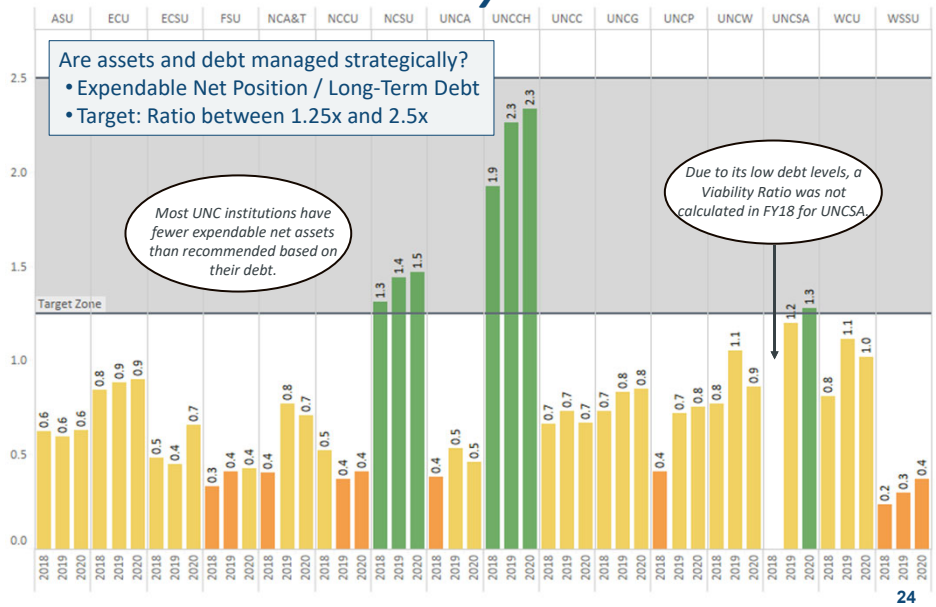


THE UNIVERSITY OF NORTH CAROLINA SYSTEM

Financial Resources: Primary Reserve Ratio



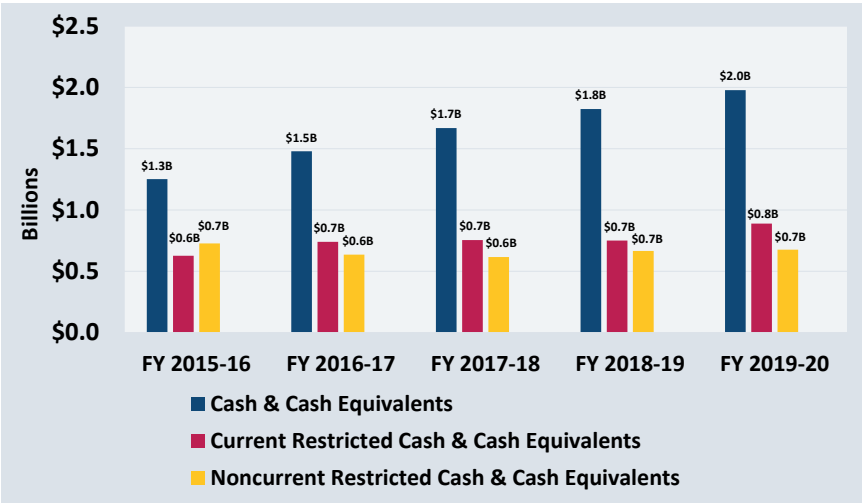
Financial Resources: Viability Ratio



Cash Position

UNC System Cash Position: FY 2016-20

(excluding UNC Hospitals)



THE UNIVERSITY OF NORTH CAROLINA SYSTEM

UNC System Cash Flows: FY 2019-20

(excluding UNC Hospitals)

	FY 2019	FY 2020	Change	
Received from customers	5,339,553,678	5,196,102,143	(143,451,535)	-2.7%
State appropriations	3,103,390,559	3,110,210,936	6,820,377	0.2%
Noncapital grants, gifts, and student aid	1,081,625,829	1,337,555,372	255,929,543	23.7%
Other receipts	411,262,346	389,588,562	(21,673,784)	-5.3%
Payments to employees and fringe benefits	(5,489,042,877)	(5,647,559,518)	(158,516,641)	2.9%
Payments to vendors and suppliers	(2,716,212,054)	(2,646,359,667)	69,852,387	-2.6%
Payments for grants, gifts, and student aid	(722,328,848)	(885,209,315)	(162,880,467)	22.5%
Other payments	(74,816,338)	(87,105,523)	(12,289,185)	16.4%
Net Cash Provided by Operating and Noncapital Financing Actvities	933,432,295	767,222,990	(166,209,305)	-17.8%
Net Cash Used by Capital Financing Activities	(594,318,312)	(632,130,858)	(37,812,546)	6.4%
Net Cash Provided (Used) by Investing Activities	(142,802,432)	136,743,924	279,546,356	195.8%
Net Increase in Cash and Cash Equivalents	196,311,551	271,836,056	75,524,505	38.5%

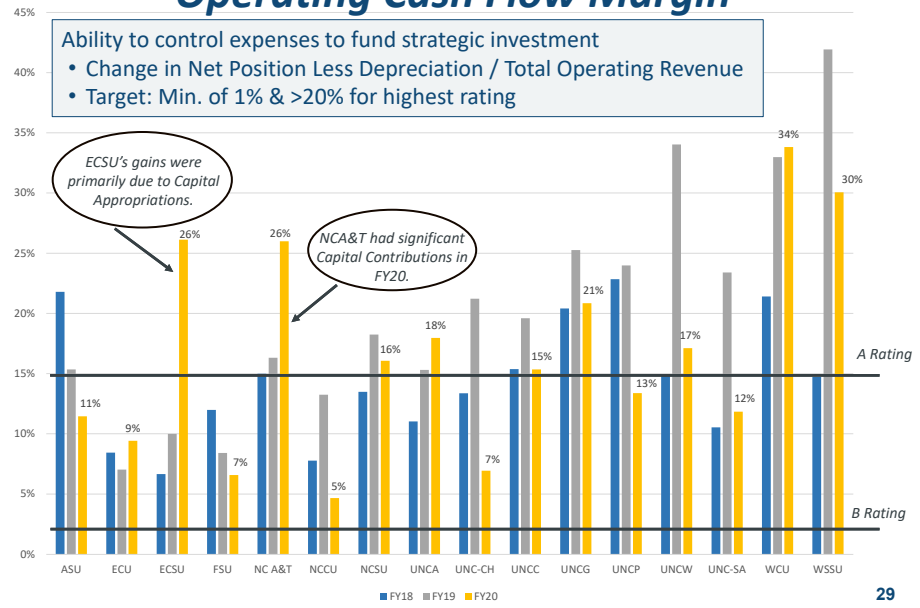
Cash Performance: FY 2019-20

(excluding UNC Hospitals)

- Credit rating agencies use measures like a university's ability to generate cash from primary business activities and the liquidity of a university's financial resources to assess creditworthiness.
  - Performance: Operating Cash Flow Margin
  - Reserves: Spendable Cash and Investments to Operating Expenses

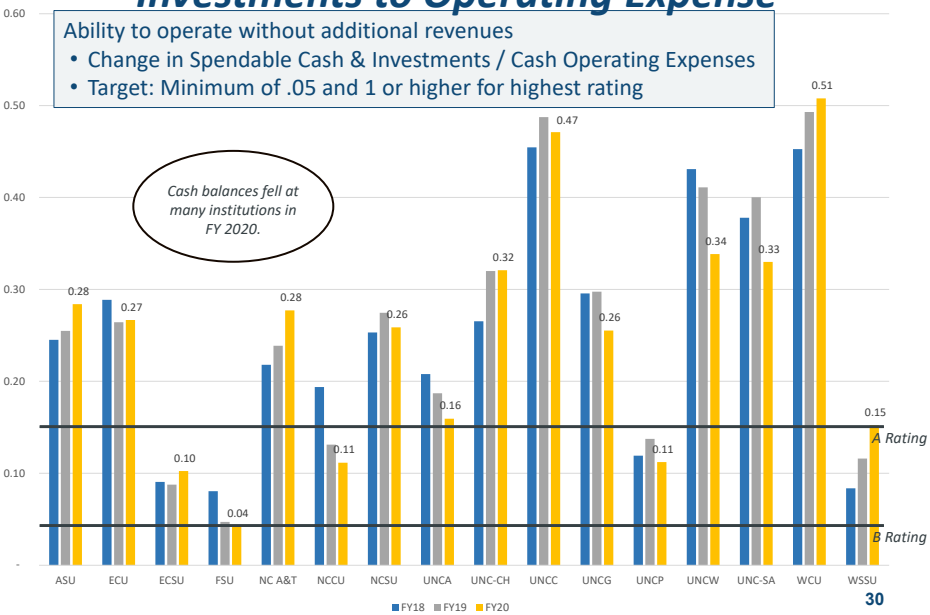
Cash Performance: Operating Cash Flow Margin

Ability to control expenses to fund strategic investment
- Change in Net Position Less Depreciation / Total Operating Revenue
- Target: Min. of 1% & >20% for highest rating



Reserves: Spendable Cash and Investments to Operating Expense

Ability to operate without additional revenues
- Change in Spendable Cash & Investments / Cash Operating Expenses
- Target: Minimum of .05 and 1 or higher for highest rating

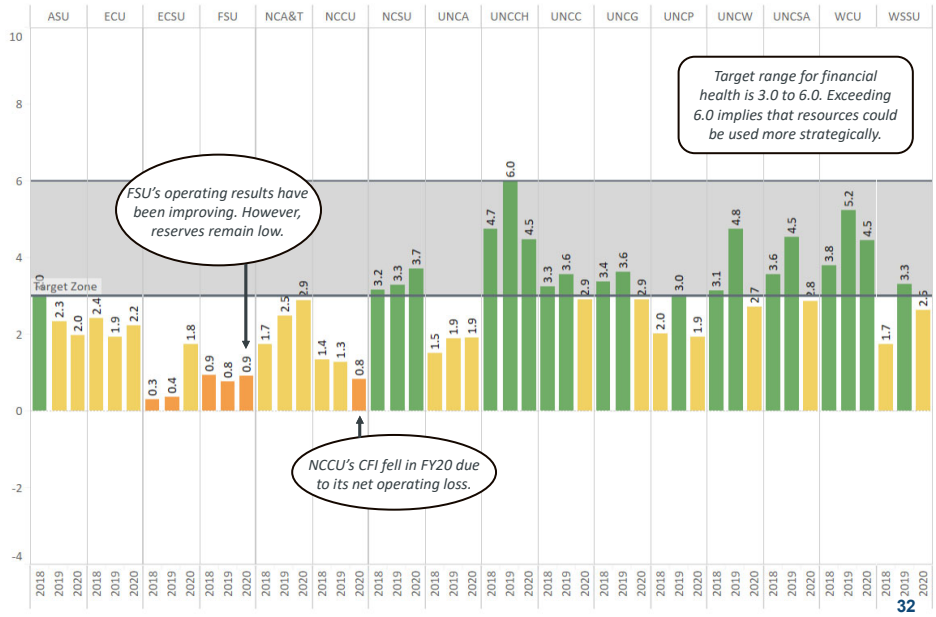


Composite Financial Index: FY 2019-20

- **University-specific composite measure developed by NACUBO:**
  - **Evaluates overall institutional financial health and strategic risk**
  - **Used widely throughout Higher Education**
  - **Derivable from audited financial statements**
  - **Useful for private and public institutions**

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

Composite Financial Index: FY 2019-20



Conclusions

- **The UNC System is in a strong financial position, but FY 2020 financial performance was not as robust as FY 2019 for most universities due primarily to COVID-19 and the absence of a state budget.**
- **This underlines the importance of maintaining sufficient and flexible reserves and the ability to manage expenses.**
- **In particular, financial health of auxiliary enterprises plays a key role in campus financial performance.**

Financial Reporting vs. Budgeting

Past financial performance and the plan for the future are both important in understanding a university's finances.

Financial Statement

- Review of previous year's financial activity
- Includes full accrual accounting adjustments (e.g. depreciation)
- Contains balance sheet information (assets, liabilities, and net position)
- Used to benchmark to financial peers and industry

Budget

- Forward-looking plan of expected revenues and expenses
- Generally cash-based and includes inter-departmental transactional activity
- Primary focus on unrestricted fund sources and related uses
- Accommodates strategic planning and provides transparency in allocation decisions

QUESTIONS?

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

MEETING OF THE BOARD OF GOVERNORS
Committee on Budget and Finance
May 26, 2021

AGENDA ITEM

A-3. All-Funds Budget Update..... Jonathan Pruitt and Nate Knuffman

Situation: In order to further the financial management of the University of North Carolina System and its constituent institutions, it is recommended that an all-funds budget be developed and executed by each constituent institution of the UNC System beginning with FY 2021-22.

Background: North Carolina has a long history of state support for public higher education, resulting in substantial state appropriations and low tuition. These two revenue sources have sustained excellence in teaching and supported access and affordability for many generations of North Carolinians. For the majority of the System's history, these two revenue sources were the primary revenues that supported System operations. Both of these revenues are considered state General Fund revenues that are governed by strong regulations for budgeting.

However, the same budgeting requirements do not exist for the System's other fund sources. These other fund sources, called Institutional Trust Funds in the General Statutes, are comprised of revenues from auxiliary enterprises, federal grants and contracts, donor funds, and student fees. Over time, these Institutional Trust Funds have grown and now comprise half of UNC System revenues. Because there is no requirement for a comprehensive, all-funds unified budget for the constituent institutions of the UNC System, there is no standard approach to budgeting and often a formal budget does not exist.

Assessment: Budgeting is a common best practice for both private and public organizations. The fact that the UNC System does not operate with a formal-budgeting process is an enterprise risk that can and should be addressed. It also would provide a structural foundation for the execution of the University's strategic plan and ensuring the delivery of the System's mission of teaching, research and service in a financially sustainable manner.

It is recommended that these budgets be approved by each institution's board of trustees and reported to the president of the System and the Board of Governors annually.

Action: This item is for information only.

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

UNC SYSTEM ALL-FUNDS BUDGET STATUS UPDATE

Board of Governors
Committee on Budget and Finance

May 26, 2021

Presentation Outline

- Background and Overview of the UNC System All-Funds Budget Initiative
- All-Funds Budget Example – UNC-Chapel Hill
- Next Steps

Background and Overview

All-Funds Budget – Background

- Budgeting is a common best practice that supports strategic resource allocation in support of institutional strategic priorities.
- Historically, the primary revenue streams for the UNC System were state appropriations and tuition, which are both part of the state General Fund and governed by state budgeting processes.
- Over time, Institutional Trust Funds (non-state funds), have grown significantly (now half of UNC System revenues) and are not included as part of a formal budgeting process with state funds.

All-Funds Budget – Current Status

- An internal working group comprised of budget and finance staff across the UNC System was formed in November 2020 and has drafted a template for the all-funds budget that will be standard for all institutions.
- The template will be used to develop institution-wide budgets as well as more granular budgets for individual schools, departments, and administrative units within an institution.
- The budget will be approved by each institution's Board of Trustees and forwarded to the President and Board of Governors.

UNC-Chapel Hill Budget Example

Next Steps

All-Funds Budget – Next Steps

- May 2021 – All-funds budget template finalized
- June – August 2021 – UNC System Office develops guidance on process and governance
- September 2021 – Campus process begins
- April 2022 – Boards of Trustees approve FY 2022-23 all-funds budgets
- May 2022 – FY 2022-23 all-funds budgets reported to the President and Board of Governors

QUESTIONS?

CONNECT www.northcarolina.edu uncsystem @UNC_system @UNC_system

UNC-Chapel Hill All-Funds Budget

Nathan Knuffman
Vice Chancellor for Finance and Operations
May 26, 2021

Financial Environment

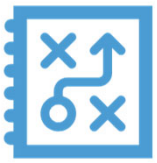
- UNC-CH will continue to face pressures on its primary revenue sources (e.g., tuition, appropriations).
- Carolina's current decentralized and fragmented operating environment makes decision-making based on "university" perspective difficult.
- Ambitious goals of UNC System and UNC-CH strategic plans will require investments.

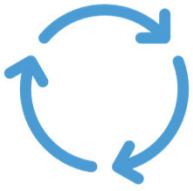
What is an "All-Funds" Budget and why is it important?

- Prior to FY21, the university relied on the Annual Financial Report to determine success of financial management.
- Drawbacks to this approach:
  - Aggregates operating funds
  - Cannot see strengths of individual fund sources and correct accordingly
  - No comparability to planned use of funds
- Proposed solution: Adopt a comprehensive, campus-wide annual financial plan by fund source:
  - Identify unique funding sources
  - Balance each year's operating expenses with operating revenues
  - Use this financial plan to understand quarterly and annual performance

UNC-CH Budget Process: Challenges Faced

- Limited and fragmented tools
- Varying planning approaches and formats across campus units
- Unit-level reporting challenges
- Collective trust in process





How did we build the "All-Funds" budget?

Collaboration

Created a collaborative process with campus

Commonality

Instituted common budgeting principles

Tools

Utilized existing tools

UNC-CH All-Funds Budget: FY 2020-21

Millions $

Revenue	General Funds	Trust Funds	Total
State Appropriations	527.3	0.0	527.3
Tuition & Fees	460.7	106.2	567.0
Sales & Services	0.6	1,064.4	1,065.0
Grants & Contracts	0.0	972.8	972.8
Gifts & Investments	0.0	120.0	120.0
Other Revenues	0.3	371.7	372.0
Total	989.0	2,635.2	3,624.2

Expense	General Funds	Trust Funds	Total
Salaries & Wages	515.9	993.8	1,509.7
Benefits	142.9	285.2	428.1
Contracted Services	39.5	199.0	238.5
Supplies & Materials	14.4	153.2	167.6
PP&E	3.0	40.0	43.0
Financial Aid	91.7	350.4	442.1
Debt Service	0.0	105.6	105.6
Other Expenses*	181.6	508.0	689.6
Total	989.0	2,635.2	3,624.2

**Represents predominantly research expenses, including subcontracts*

Gillings School of Public Health: FY 2020-21

Millions $

Revenue	General Funds	Trust Funds	Total
State Appropriations	6.7	0.0	6.7
Tuition & Fees	30.6	0.2	30.9
Sales & Services	0.0	1.3	1.3
Grants & Contracts	0.0	95.6	95.6
Gifts & Investments	0.0	10.3	10.3
Other Revenues	0.0	17.8	17.8
Total	37.4	125.2	162.5

Expense	General Funds	Trust Funds	Total
Salaries & Wages	25.2	39.4	64.6
Benefits	6.9	10.3	17.2
Contracted Services	3.5	3.6	7.0
Supplies & Materials	0.0	0.5	0.5
PP&E	0.0	0.6	0.6
Financial Aid	1.7	3.8	5.5
Debt Service	0.0	0.0	0.0
Other Expenses*	0.2	67.0	67.2
Total	37.4	125.2	162.5

**Represents predominantly research expenses, including subcontracts*

Governance Improvements

- **Quarterly reports** on fiscal performance
- **Budget committee** for "out-of-cycle" requests
- Review of **fund authority** and management
- Policy on **reserve levels** and management
- Stronger **engagement with BOT** on budget

Lessons Learned from Implementing All-Funds Budget Model

- 3 years to implement at Carolina
- Challenging process without proper tools
- Requires extensive collaboration, which is very labor intensive
- Initial phases focused on consistency and trust
- Latest phase graduated to resource allocations and expense management
- ***CFO needs to be empowered to manage implementation, with direct reporting to Chancellor***
- ***Requires continuous, active and engaged executive sponsorship to be truly successful***

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

MEETING OF THE BOARD OF GOVERNORS
Committee on Budget and Finance
May 26, 2021

AGENDA ITEM

A-4. Report on FY 2020 UNC System Debt Capacity Study.....Jennifer Haygood

Situation: The University of North Carolina System Office is required to prepare and submit to the General Assembly a Debt Capacity Study detailing the System's current debt load and capacity to borrow.

Background: G.S. 116D-56 requires the Board of Governors to annually advise the General Assembly and the Governor on the estimated debt capacity of the UNC System for the upcoming five years. The provision also requires each constituent institution to report current and anticipated debt levels, current bond rating and information about any changes to that rating, information about the institution's debt management policies, and comparisons to peer institutions.

Assessment: The System Office has prepared the 2020 UNC System Debt Capacity Study in compliance with G.S. 116D-56. The study finds that all 16 institutions maintain or increase their debt capacity over the five-year study period, seven institutions have increased their debt capacity compared to last year, and all 16 institutions have improved at least one of their primary financial ratios since the 2019 study.

Action: This item requires a vote by the committee, with a vote by the full Board of Governors through the consent agenda.

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

Report on FY 2020 UNC System Debt Capacity Study

May 26, 2020

Table of Contents

FY 2019-20 Debt Capacity Study

Purpose of the Study

The Current Operations and Capital Improvements Appropriations Act of 2015, which was signed into law on September 18, 2015, added a new Article 5 to Chapter 116D of the General Statutes of North Carolina (the "***Act***"), requiring each constituent institution (collectively, the "***Institutions***") of The University of North Carolina (the "***University***") to provide the Board of Governors of the University (the "***Board***") with an annual report on its current and anticipated debt levels. The Act requires that the University, in turn, submit to the Office of State Budget and Management, the Joint Legislative Commission on Governmental Operations, the State Treasurer and The University of North Carolina System (the "***UNC System Office***") an annual study incorporating each Institution report.

This report (the "***Study***") has been developed to address the Act's mandate to advise stakeholders "on the estimated debt capacity of The University of North Carolina for the upcoming five fiscal years" and establish "guidelines for evaluating the University's debt burden."

The Act also requires the Board to submit a uniform report from each institution regarding its debt burden and anticipated debt levels, in addition to other data and information relating to each institution's fiscal management. Those Institution Reports are attached to the Study as **Appendix D**.

Methodology Used

Since the Act defines "debt" for the purposes of the Study to exclude debt serviced with "funds appropriated from the General Fund of the State," the Study primarily focuses on special obligation bonds issued under Article 3 of Chapter 116D ("***special obligation bonds***" or "***general revenue bonds***"), millennial campus bonds issued under Article 21B of Chapter 116, and other long-term debt issued on behalf of each institution to finance various capital facilities, including housing and other enterprise projects.

N.C. General Statute § 116D-26(a) prohibits using the obligated resources of one institution to secure the debt of another institution, meaning the University has no debt capacity independent of its constituent Institutions' individual ability to issue debt. The Study does not, therefore, aggregate each institution's individual debt levels and obligated resources to derive a University-wide debt capacity metric. Instead, the Study offers a comprehensive review of each institution's debt capacity using the guidelines presented in the Act, which the System has presented in detail in the Institution Reports included as part of **Appendix D**.

The Act expressly requires the University to establish guidelines for two ratios—**debt to obligated resources** and a **five-year payout ratio**. The Study also includes two additional ratios that are more widely used to measure a public university's debt burden—**expendable resources to debt** and **debt service to operating expenses**. For more details on the ratios, see the information under the caption "Description of Ratios" on the following page.

The Study is based on a financial model that has been developed to measure four ratios on a pro forma basis over the next five years (the "***Study Period***"). Recognizing the wide diversity in enrollment, funding sources and missions across each institution, the UNC System has worked with each institution to establish tailored and meaningful target policies for its respective ratios.

While an institution's ultimate debt capacity is affected by numerous quantitative and qualitative factors, for the purposes of the Study, "*estimated debt capacity*" is defined as the maximum amount of debt each institution

could issue without exceeding its ceiling ratio for debt to obligated resources in any single year of the study period.

Description of Ratios

The model considers the following four ratios:

Statutory Ratios

Ratio	Explanation	Commentary
Debt to Obligated Resources	Compares each institution's outstanding debt to the funds legally available to service its debt	• Provides a general indication of an institution's ability to repay debt from wealth that can be accessed over time • Tied to the statutory framework for institution debt, so ratio is not used outside the State
Five-Year Payout	Measures the percentage of each institution's debt to be retired within the subsequent five year period	• Indicates how rapidly an institution's debt is amortizing and how much additional debt capacity may be created in the near term • Five year horizon is not widely used

Supplementary Ratios

Ratio	Explanation	Commentary
Debt Service to Operations	Measures debt service burden as a percentage of each institution's total operating expenses	• Indicates an institution's operating flexibility to finance existing requirements and new initiatives • Uses expenses rather than revenues because expenses tend to be more stable year-over-year • Permits comparison to peers outside the State
Expendable Resources to Debt	Measures the number of times each institution's liquid and expendable net assets covers its aggregate debt	• Provides a general indication of an institution's ability to repay debt from wealth that can be accessed over time • Permits comparison to peers outside the State

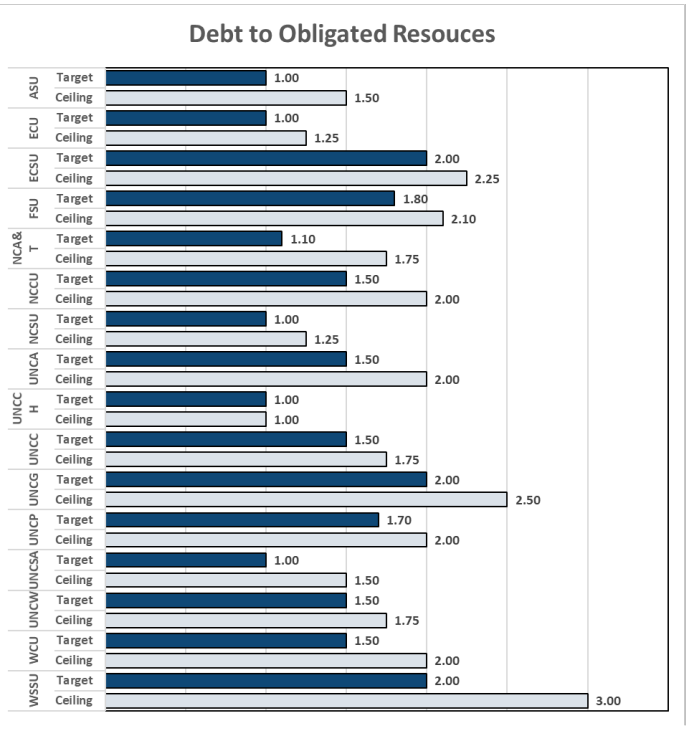
The first two ratios—**debt to obligated resources** and **five-year payout**—are mandated by the Act. While the ratios provide useful snapshots of each institution's debt profile and fiscal condition, the two ratios are not used outside of North Carolina. To provide additional data points and peer comparisons, the Study tracks two additional ratios—**debt service to operations** and **expendable resources to debt**.

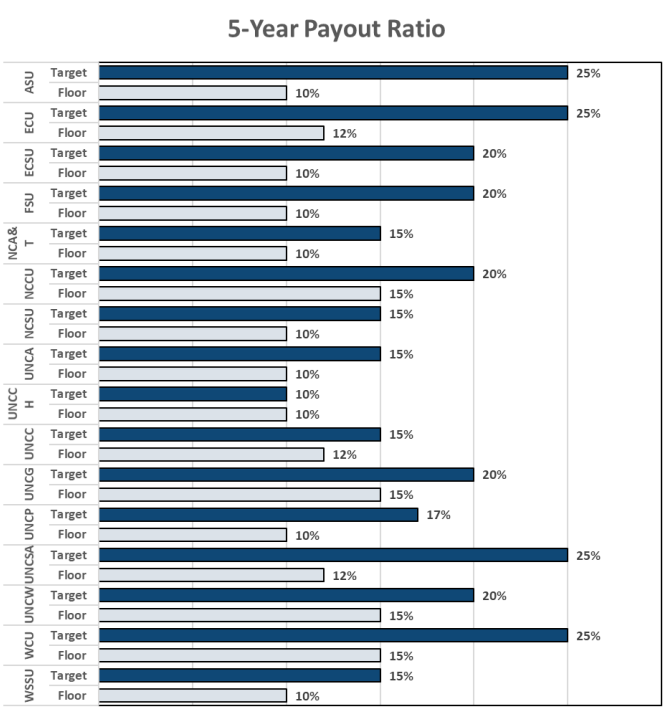
Note that the Study uses each institution's "Available Funds" as a proxy for its obligated resources. "Available Funds" is reported publicly by each institution with outstanding general revenue bond debt and reflects how Article 3's "obligated resources" concept has been translated into the bond documentation governing each institution's general revenue bonds. The two concepts are identical for most institutions, but to the extent there is any discrepancy, "Available Funds" will produce a lower, more conservative figure.

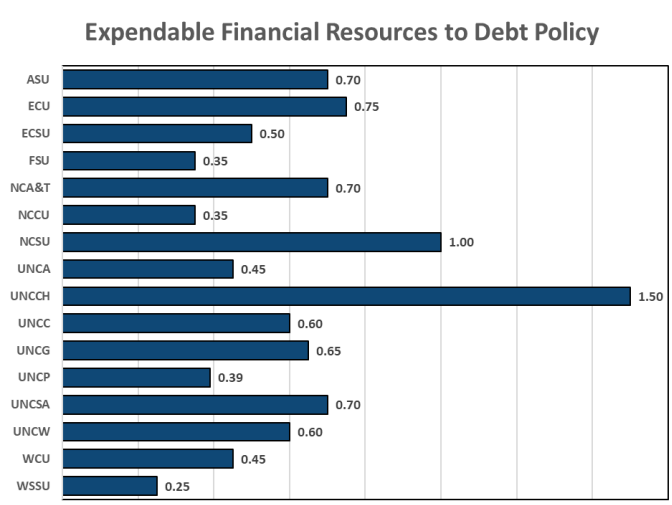
See **Appendix A** for more information on the ratios and the definitions for related terms.

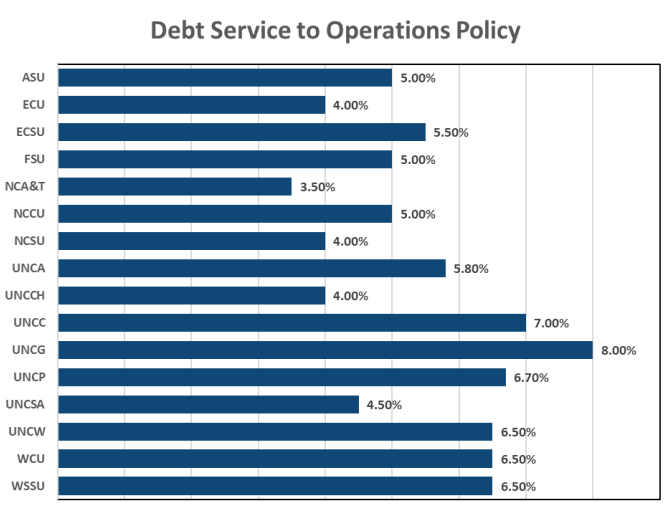
Overview of Target and Policy Ratios

For the two statutorily-required ratios—**debt to obligated resources** and **the five-year payout ratio**—each institution has set both a target ratio and a floor or ceiling policy, as applicable. The target and policy ratios are summarized below. See **Appendix C** for more information on the methodology each institution used in setting its target and policy ratios.







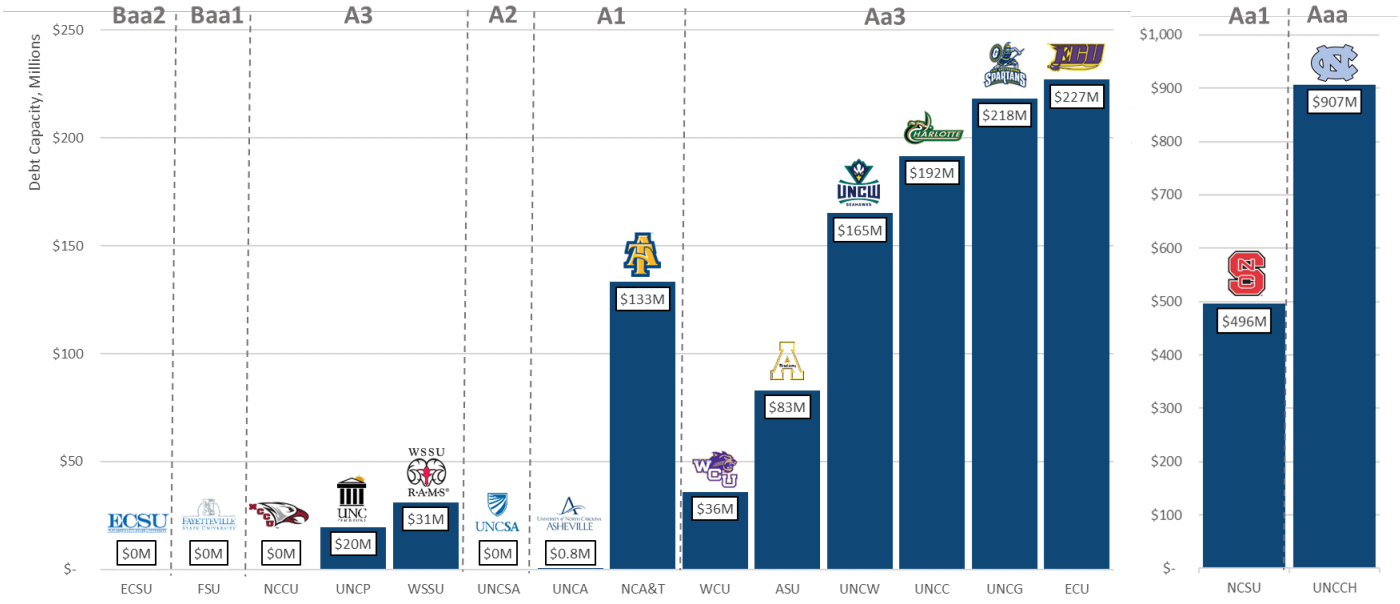


Conclusions

The following table summarizes the **current debt capacity** of each institution as defined for the purposes of the Study. The numbers in the table reflect **the maximum amount of debt each institution could issue in fiscal year 2021** without exceeding its ceiling ratio for **debt to obligated resources** during any year of the Study Period, after

taking into account any approved future projects**.** The approved future projects for each institution, if any, are detailed in its report included as part of **Appendix D.**

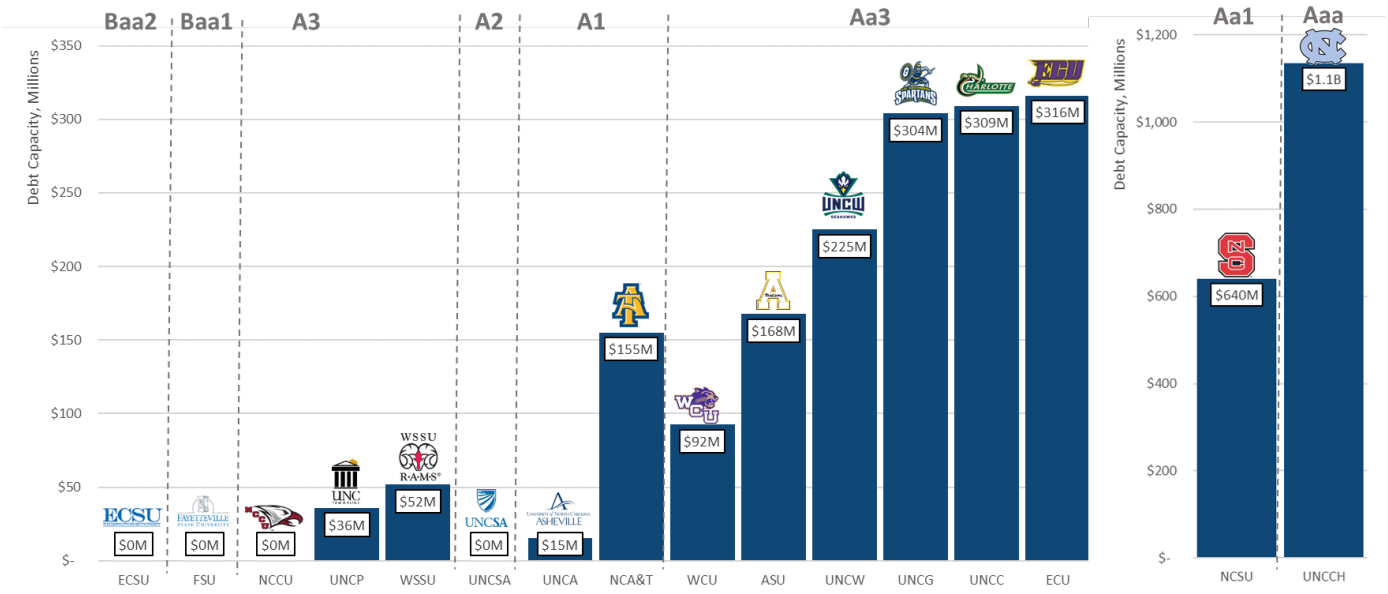
Current Debt Capacity Across the System (2021)



*The debt capacity figures for NCSU and UNCCH have been presented in a separate chart using a compressed scale to make the debt capacity figures for the other institutions easier to interpret. Institutions showing no debt capacity have a debt to obligated resources ratio that is higher than the institution's target policy.
**FSU and UNCP are not currently rated by Moody's. FSU and UNCP have been grouped based on their corresponding ratings from either Standard and Poor's or Fitch.

Generally, debt capacity for each institution will grow over the course of the Study Period. The table below summarizes each institution's **projected debt capacity for fiscal year 2025,** assuming it issued no debt (other than debt to finance any approved future projects) until the last year of the Study Period.

Projected Debt Capacity Across the System (2025)



*The debt capacity figures for NCSU and UNCCH have been presented in a separate chart using a compressed scale to make the debt capacity figures for the other institutions easier to interpret. Institutions showing no debt capacity have a debt to obligated resources ratio that is higher than the institution's target policy.
**FSU and UNCP are not currently rated by Moody's. FSU and UNCP have been grouped based on their corresponding ratings from either Standard and Poor's or Fitch.

The credit ratings in the graphs on the previous page represent the Moody's rating or assumed Moody's rating as of June 30, 2020. Since the end of the Study Period, Moody's confirmed Appalachian State's Aa3 credit rating and upgraded the outlook from negative to stable in 2021.

The range of capacities reflects the diversity among the institutions, each with its own strengths, challenges and mission. The Study reflects the general health and proactive management of each institution's balance sheet, much of which is attributable to the State's history of strong support for the University and its institutions. The general growth in capacity over the course of the Study Period indicates relatively rapid amortization rates for most institutions.

The limited debt capacity shown for Elizabeth City State University, University of North Carolina at Asheville, University of North Carolina School of the Arts, and Fayetteville State University reflect recent or future financings that have already been approved by the Board and the General Assembly and are already factored into the debt-related ratios for those institutions. It is anticipated those institutions will have limited additional borrowing needs during the study period.

A small handful of institutions are facing significant headwinds in terms of enrollment and revenue growth, which is reflected in their debt capacity results. For those institutions, improving debt capacity alone may not be a priority; instead, their debt capacity will improve as they continue to work with the UNC System to implement new strategies and policies to meet their unique challenges. Due to the uncertainty of COVID-19, the growth rate assumptions were revised from the previous year's study. The growth rate assumption uses year-over-year growth to estimate the growth for FY 2020-21. If the financial impacts are less than assumed, the debt capacity of East Carolina University, ECSU, FSU, North Carolina Central University, University of North Carolina at Chapel Hill, UNCSA, and Western Carolina University will be higher than those shown on the chart on the previous page. More information about the method for these adjustments can be found in **Appendix C**.

While the Study provides useful insight into the overall fiscal position and capital needs of each institution, policymakers and other stakeholders identify trends and challenges facing each institution and the University over time, the Study also underscores the unique nature of public higher education debt and the value of the UNC System's centralized support and oversight. **The Study's emphasis on aggregate debt and asset levels is valuable, but the current approval process, which is predicated on a collaborative, project-by-project analysis of tailored cost estimates and project-specific sources of repayment, should continue to drive decision-making with respect to any proposed project.**

Recommendations

Recommended Use of the Study

Since the Study is framed broadly to accommodate the complexity and diversity of each institution's mission, business model, size and infrastructure needs, the Study should be used as a general assessment of each institution's overall fiscal position and to help Institutions, policymakers, and other stakeholders identify trends and challenges facing each institution and the UNC System. Like any other management tool, the Study is not intended as a substitute for the considered judgment of institutional leadership, the UNC System, the Board, or the General Assembly. An institution may be better served, for example, foregoing a project when it has significant debt capacity even if doing so would cause the institution to exceed one of its stated target ratios.

While the Study will help policymakers and stakeholders determine when additional scrutiny for a project may be warranted, institutional debt policies and the University's debt approval process — which is predicated on a project-by-project analysis of tailored cost estimates and identified sources of repayment — should continue to drive decision-making with respect to any proposed financing.

The graphic below summarizes how the Study is intended to be integrated into a comprehensive debt management framework that includes each institution's debt policy and the University's debt approval process.

Annual Debt Capacity Study

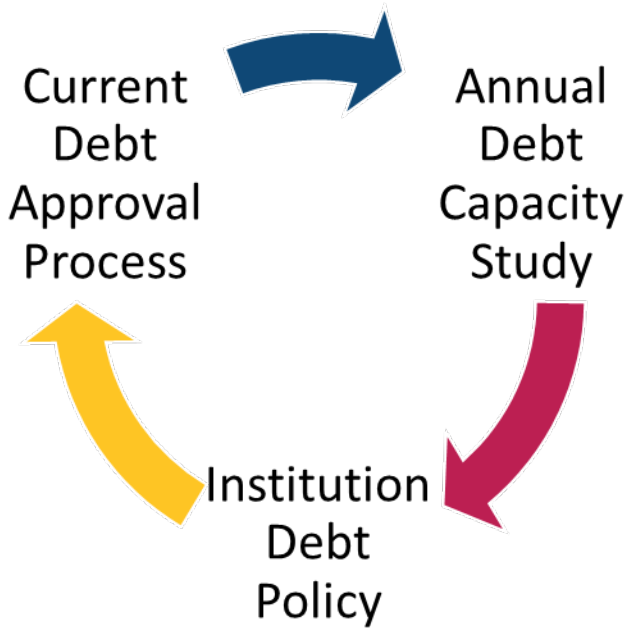
- Provides a snapshot of each institution's current estimated debt capacity
- May indicate when a proposed project requires heightened scrutiny
- Updated annually to reflect newly approved debt and the institution's latest financial results and projects

Institution Debt Policy

- Clarifies each institution's strategic approach to debt and its capital investment needs
- Establishes criteria for evaluating projects and approving debt, including benchmarks to measure prudent debt levels

Current Debt Approval Process

- Evaluates each proposed project's affordability based on identified sources of repayment and projected impact on student cost
- Uses estimated debt capacity results to assess strategic value of proposed projects in light of an institution's overall debt burden, mission, and needs



Use and Impact of Project-Based Financing Structures

Project-based financing structures — i.e., debt obligations payable solely or primarily from the financed project's revenues (collectively, "**Project Financings**") — have been used effectively throughout the state for many years. Institutions have structured their Project Financings using both their affiliate support organizations (collectively, "**Foundation Financings**") and unaffiliated, tax-exempt organizations (collectively, "**Privatized Financings**"). Many Project Financings have been structured with the support of master lease arrangements with the institutions (collectively, "**University-Supported Project Financings**"), while others have been structured so that the institutions have no obligation to repay any associated debt (collectively, "**Nonrecourse Project Financings**").

Since project revenues in Nonrecourse Project Financings accrue to the project owner and not the institution, Nonrecourse Project Financings are not payable from the obligated resources of an institution and have therefore been **excluded** from the Study's debt capacity calculations. By contrast, State-Supported Project Financings, which are supported by the institution's obligated resources, **are included** in the Study's debt capacity calculations.

Over the past couple years, several institutions have entered into (or have obtained approval to enter into) large-scale Project Financings for new, on-campus housing facilities. Each of those transactions has been structured as Nonrecourse Project Financings, so those debt instruments are **not** included in the Study's debt capacity calculations. The rating agencies have made it clear recently, however, that they will be more likely to include Nonrecourse Project Financings in their institution leverage metrics for on-campus housing, even if the institution has no legal obligation to repay the debt. Thus, the use of Nonrecourse Project Financing structures may reduce the debt capacity of an institution in the eyes of the rating agencies.

The UNC System Office has developed guidelines for the prudent use of Project Financing structures and will continue to work with the institutions and other stakeholders in state government to ensure Project Financing structures are used strategically and in keeping with the UNC System's mandate to provide access to the benefits of the University at the lowest practicable cost.

CARES Act, Other Federal Relief Legislation, and COVID-19 Operational Impact

The federal relief funds provided through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Coronavirus Response and Relief Supplemental Appropriations Act, and American Rescue Plan Act (ARPA) have provided significant financial relief to the constituent institutions. The federal legislation provided funds to the institutions for both direct aid to students and institutional funds to offset the costs of the pandemic. The universities have significant latitude in determining how to use their allotment of institutional funds. The federal relief funds will have a positive stabilizing effect on university finances for the next several years because the universities have 365 days from receiving the Grant Award Notification to spend their institutional funds and can request a one-time extension as well.

COVID-19 related costs and losses not offset by relief fund allocations are being addressed through operational budget reductions, expense restrictions, the implementation of hiring and salary freezes, the postponement of capital and renovation expenditures, with the remaining amounts absorbed by institutional fund reserve balances. In response to COVID-19, on May 20, 2020, the UNC Board of Governors voted not to raise tuition or mandatory fees for the 2020-21 academic year at any UNC institution. Revenues from auxiliary operations were negatively impacted in the spring 2020 semester and for the 2020-21 academic year due to the cessation and disruption of auxiliary services and the de-densification of residence halls.

The CARES Act was the only federal relief bill that passed during the study period. The UNC System Office allowed the institutions to determine how to account for the funds. ECSU, North Carolina A&T State University, and UNCA took distributions from their CARES Act allocations and recorded those funds as unrestricted for accounting purposes so the funds are included in their calculations of available funds. The remaining institutions either took no distributions before June 30 or recorded the distributions as restricted.

As a general matter, the continued spread of COVID-19 has impacted and will continue to impact global financial markets and national, state, and local economies. The UNC System cannot predict the duration and ultimate effects of the outbreak on the finances of the Universities including enrollment, demand for housing, dining, auxiliary services, available funds, and the value of the University's investments.

Moody's and S&P Credit Ratings' Changes Due To COVID-19 Impact

The COVID-19 pandemic caused widespread uncertainty in the financial health of public universities. In April 2020, S&P Global issued revised credit rating outlooks for the higher education sector in response to the COVID-19 impacts

for US higher education. Prior to the revision, only 9.2 percent of S&P's rated institutions (approximately 40 out of 438 private and public institutions) carried negative outlooks. After the April 2020 assessment, 38 percent (or 166 institutions) had negative outlooks. Recently, credit ratings for FSU, UNC Pembroke, and Winston-Salem State University received negative outlooks due to risks of state funding cuts and risks to associated entities linked to certain debt issuances by these universities.

However, the situation is improving. In March 2021, Moody's revised its outlook for the higher education sector from negative to stable. Moody's had assigned the higher education sector a negative outlook since December 2017. Moody's cites four key reasons for the improved outlook.

1. "Improving prospects for return to campus in fall 2021 will bolster tuition and auxiliary revenue.
2. Federal government relief funds provide additional direct aid to higher education, offsetting pandemic-related revenue losses and expense increases.
3. Risk of material funding cuts for public universities decreases as state economies recover.
4. Economic growth prospects and financial market strength supports philanthropy and endowments."

Appendix A: Key Definitions

Debt: Debt incurred under Chapter 116D or Article 21B of Chapter 116 of the North Carolina General Statutes 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 from the General Fund of the state. "Debt" does not include project-based financing structures that are nonrecourse to the institutions.

Obligated Resources: Any sources of income or receipts of the Board of Governors or the institution at which a special obligation bond project is or will be located that are designated by the Board as the security and source of payment for bonds issued under this Article to finance a special obligation bond project, including, without limitation, any of the following:

a. Rents, charges, or fees to be derived by the Board of Governors or the institution from any activities conducted at the institution.

b. Earnings on the investment of the endowment fund of the institution at which a special obligation project will be located, to the extent that the use of the earnings will not violate any lawful condition placed by the donor upon the part of the endowment fund that generates the investment earnings.

c. Funds to be received under a contract or a grant agreement, including "overhead costs reimbursement" under a grant agreement, entered into by the Board of Governors or the institution to the extent the use of the funds is not restricted by the terms of the contract or grant agreement or the use of the funds as provided in this Article does not violate the restriction.

d. Funds appropriated from the General Fund to the Board of Governors on behalf of a constituent institution for utilities of the institution that constitute energy savings as that term is defined in G.S. 143-64.17.

Generally, obligated resources do not include funds appropriated to the Board of Governors or the institution from the General Fund by the General Assembly from funds derived from general tax and other revenues of the state, and obligated resources do not include tuition payment by students.

5-Year Payout Ratio: Percentage of each institution's long-term debt scheduled to be retired during the succeeding five-year period.

Debt Service to Operations: Ratio that measures an institution's debt service burden as a percentage of its total expenses. Ratio uses aggregate operating expenses as opposed to operating revenues because expenses are generally more stable. Operating Expenses also include an adjustment for any noncash charge relating to the implementation of GASB 68 and 75.

Debt Service to Operations = (Annual Debt Service) / (Total Operating Expenses)

Expendable Resources to Debt:

Ratio that measures the number of times an institution's liquid and expendable net assets covers the institution's aggregate funded debt. In calculating the ratio, the institution's Unrestricted Net Assets has been adjusted to add any non-cash charges for the period (such as adjustments required by GASB 68 and 75).

Expendable Resources to Debt = (Adjusted Unrestricted Net Assets + Restricted Expendable Net Assets) / (Debt)

Appendix B: Overview of UNC System Debt

Most debt within the scope of the Study is comprised of special obligation bonds issued by the Board on behalf of each institution in accordance with Article 3 of Chapter 116D of the General Statutes of North Carolina, as amended ("***Article 3***"). Institutions may use special obligation bonds (or "***general revenue bonds***," as they are commonly called) to finance any capital facility located at the campus that supports the institution's mission, but only if the Board has specifically designated the project as a "special obligation bond project" in accordance with Article 3.

Article 3 contains procedural safeguards to ensure the thoughtful use of special obligation bonds. For example, before any general revenue bonds are issued, Article 3 requires the approval of the Institution's board of trustees, the Board of Governors, the General Assembly and the Director of the Budget (in consultation, if necessary, with the Joint Legislative Commission on Governmental Operations).

As part of its approval, the Board of Governors must (1) designate the proposed project as a "special obligation bond project" and the obligated resources that will serve as the source of repayment for the proposed bonds and (2) establish that sufficient obligated resources are reasonably expected to be available to service the proposed bonds. In its report to the General Assembly seeking approval for a proposed Article 3 project, the Board must provide details regarding the project need, expected project costs, expected increases in operating costs following completion (including any contemplated impact on student costs), estimated debt service and the sources and amounts of obligated resources to be used to repay the debt.

Although Article 3 focuses on an institution's obligated resources in the aggregate, as a practical matter, the plan of finance for each proposed project is evaluated on a standalone basis. **If an institution is unable to demonstrate that existing or future revenues associated with a project are sufficient to service the proposed debt, then the financing will generally not move forward unless the project is redesigned to a sustainable and appropriate scale**. Those project-specific revenues may take the form of enterprise system revenues (such as dormitory or dining system revenues) or other dedicated revenue sources (such as capital campaign donations or student fees). Institutional debt issued under other legislative authority, including student housing revenue bonds under Article 19 of Chapter 116D, is also subject to procedural safeguards and are evaluated on a project-by-project basis.

This slight disconnect between the statutory framework for evaluating debt capacity — **with its focus on affordability relative to each institution's aggregate obligated resources** — and the practical manner in which projects are evaluated and approved — **with its focus on an individual project's affordability based on a specific source of repayment** — means that the Study presents an inherently conservative picture of each institution's debt capacity. While the model's inherent conservatism encourages prudent planning, the Study's limitations in evaluating the affordability of any single campus project should be noted.

Unlike the State of North Carolina's debt capacity study, for example, where future debt service is paid out of well-defined and relatively predictable revenue streams, campus projects may be financed through a variety of revenue sources, none of which is easily modeled on a pro forma basis at the aggregate obligated resources level. In addition, the Act establishes a target ratio that compares aggregate debt (which will increase immediately by the full amount of the debt once issued) to obligated resources (which will increase incrementally over time). This means that any new financing will generally reduce the institution's debt capacity as reflected in the Study, even if the new project would be entirely supported by new revenues that would not exist but for the project.

None of the institutional debt included in the Study affects the State of North Carolina's debt capacity or credit rating. Such obligations are payable only from the applicable institution's obligated resources (or other pledged revenues) and do not constitute a debt or liability of the State or a pledge of the State's full faith and credit.

Appendix C: Study Methodology and Background

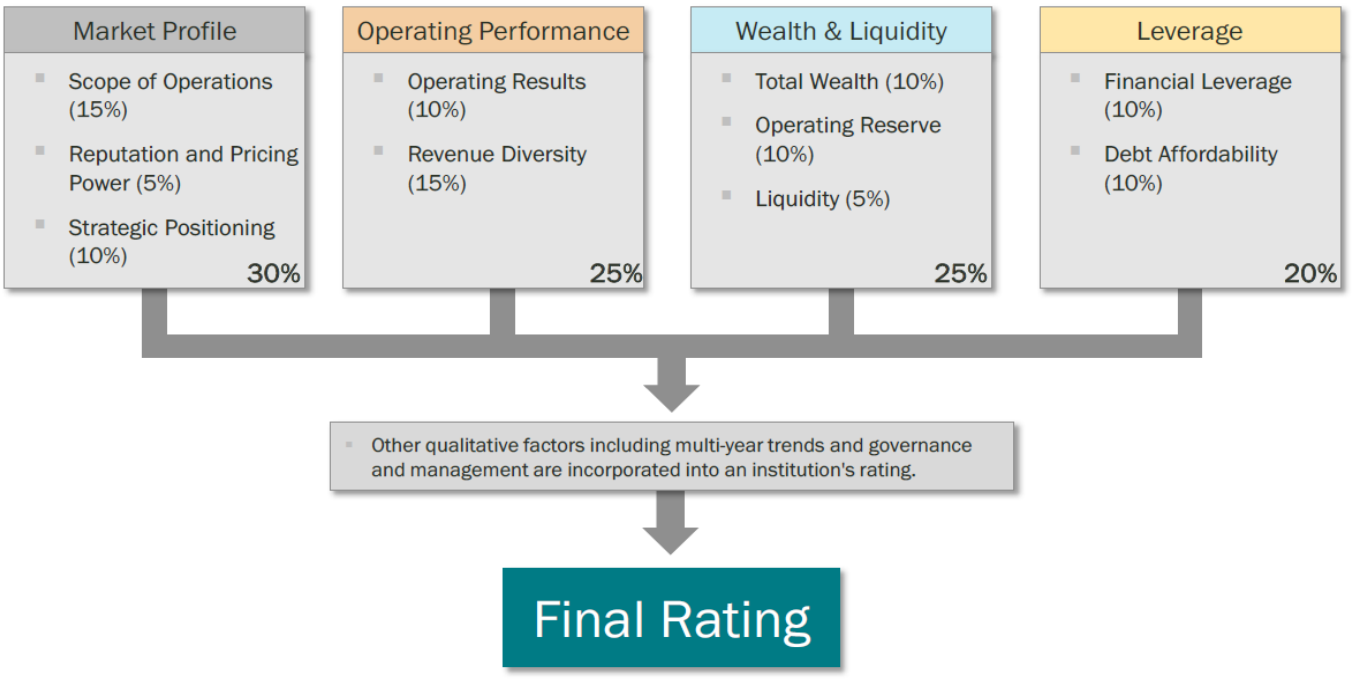
Overview of Strategic Debt Management and Credit Assessment

The prudent use of debt, in service of each institution's mission, provides several strategic benefits:

- **Achieving intergenerational equity** – Most capital projects will benefit students for decades. Financing a portion of each institution's planned capital investments enables each institution to better align the benefits and financial burdens across multiple generations.
- **Enhancing effectiveness** – An institution may use debt to invest in transformative projects on an accelerated schedule, permitting the institution to leverage its resources to better scale its programs, serve its stakeholders and meet its mandated mission.
- **Imposing discipline** – Debt can be used to clarify priorities and reduce other spending that may crowd-out investments necessary for the institution's long-term health.

Burdensome debt levels, however, can undermine an institution's effectiveness and viability. Debt may diminish the future operational flexibility of an institution and may limit its ability to adapt to future developments and trends in the marketplace. In the worst instances, debt levels may hasten the decline of an institution, creating a downward spiral that exerts ever-increasing pressure on its balance sheet.

Each institution's credit rating (for those with rated debt) serves as a general barometer of how the rating agencies view the institution's financial strength and its debt management practices, which, in turn, informs the institution's reputation in the capital markets. In assessing a public university's creditworthiness, rating agencies generally consider three or four broad categories of factors. The table below summarizes the factors that Moody's Investors Service ("***Moody's***") considers as part of its "scorecard," which guides its credit profile analysis in the higher education sector:



*The Study focuses on Moody's methodology, as it rates nearly all of the Institutions.

As part of their criteria, the rating agencies give significant weight to various qualitative factors, such as the strength of the institution's leadership, the quality and responsiveness of its long-range planning and the role of any centralized oversight. In a rating report issued in February of 2016 in connection with an institution bond offering, for example, Moody's noted that the institution "**benefits from being part of the UNC system, which has a demonstrated history of strong oversight of member institutions**" and listed the institution's "**generous operating and capital support from the State of North Carolina**" as a primary credit strength.

For several reasons, the Study has not attempted to tie "debt capacity" to the predicted impact any new debt may have on an institution's credit rating. First, each institution's mission and strategic planning should drive its debt management decisions, not the rating agencies' outside assessment of the institution's credit profile. Managing an institution's operations solely to achieve a certain credit rating may distort strategic objectives and lead to unintended consequences. As Moody's states in its current Rating Methodology for Global Higher Education (dated November 23, 2015):

> "Strategic positioning depends on effective short- and long-range planning, consistent self-assessment and benchmarking, and ongoing monitoring and accountability. ... Determining the appropriate level of investment is a significant challenge, as too little investment can result in a gradual loss of student demand, research funding, or philanthropy if donors feel that the university is in decline. Overinvesting can saddle a college with an unsustainable business model, with revenue unable to support high fixed costs, including debt service."

Second, projecting the exact amount of debt an institution could issue during the study period without negatively impacting its credit rating is difficult. Any single financial ratio makes up only a fraction of the overall credit analysis, and weak ratios may be ignored or deemphasized in a particular situation based on multi-year trends, projections and other qualitative factors. Further, while the financial performance of its institutions has no impact on the State's credit rating, each institution's credit rating has historically benefitted from the State's strong support and overall financial health. As a result, many institutions "underperform" relative to the national median ratios for their rating category, making comparisons to median ratios challenging. Finally, because median ratios are not perfectly correlated to rating outcomes, a model that attempts to draw a linear relationship between any single ratio and a projected rating outcome would have limited predictive value.

In this context, **it is important to distinguish "debt capacity" from "debt affordability."** Debt capacity provides a general indication of each institution's ability to absorb debt on its balance sheet during the study period. Debt affordability, on the other hand, evaluates the merits of a specific financing (or a specific amount of debt), taking into account a number of quantitative and qualitative factors relating to the projects under consideration, including project revenues and expenses, cost of funds, competing strategic priorities and the "hidden" costs of foregoing the projects entirely.

Development of the Financial Model

To support the Study, a financial model has been developed to analyze four financial ratios for each institution on a pro forma basis over the course of the study period. Since Article 3 does not permit the institutions to pool their obligated resources to form a common source of funds to support all institutional project financings, the Study focuses on the individual institution's data and does not attempt to aggregate each institution's capacity to derive a University-wide measure of "debt capacity." The other components of the model are designed to assist each

institution in establishing guidelines for maintaining prudent debt levels and for evaluating capital investment priorities in light of fiscal constraints.

Each institution's debt capacity reflects the amount of debt each institution could issue during the Study period without exceeding its ceiling ratio for **debt to obligated resources**. Each institution has developed its own target policy for each ratio in consultation with the UNC System to ensure the ratio is tailored and meaningful for that institution's size, mission, resources, and average age of plant.

Methodology for Setting Target Ratios

Since there are differences in each institution's mission, enrollment, resources, and capital needs, imposing a single set of target policies across all institutions would distort the information produced by the Study — either by generating too much capacity for the larger institutions or by holding smaller institutions to unrealistic benchmarks. To produce a more meaningful model for each institution, the Institutions, in consultation with the UNC System, have set their own target policies for the model ratios.

In setting its target policies, each institution considered many quantitative and qualitative factors, including comparisons to its designated peer institutions, its strategic initiatives, its historical results, its average age of plant, its recent and projected growth and any existing debt policies. As discussed above, the credit ratings of the Institutions are bolstered by several favorable qualitative factors, including, most importantly, the State's long history of support. Since the institutions benefit from those qualitative factors, it follows that many quantitative measures are weaker than the median ratios for their assigned rating category. Institutions were not forced, therefore, to set their target ratios directly in line with those median ratios, as that approach would invite quantitative comparisons to larger, wealthier peers. Institutions used median ratios as an important benchmark in setting their policy ratios.

Other Assumptions and Factors Affecting the Model

The financial model is based on each institution's financial results as of **June 30, 2020**—the most recent period for which audited financials are available. The model includes debt issued to finance new projects since June 30, 2020, but the model excludes any refinancing, redemption or other debt payments that have occurred during the current fiscal year, building an additional element of conservatism into the model.

The financial model also takes into account any legislatively approved project that an institution plans to finance during the study period. Interest rate assumptions for any pro forma debt are based on conservative, fixed rate projections and are adjusted to account for each institution's credit rating and the expected term of the financing.

The financial model adds back to each institution's unrestricted and restricted expendable net assets any noncash charge taken in connection with the implementation of Governmental Accounting Standards Board (GASB) 68 and GASB 75 and will make similar adjustments for the implementation of related accounting policies in the future. While GASB 68 impacts an institution's unrestricted net assets and not restricted expendable net assets, GASB 75 impacts both figures. This is relevant as the calculation of Available Funds incorporates unrestricted net assets but not restricted expendable net assets, while the calculation of Expendable Financial Resources includes both figures. Therefore, the GASB 75 adjustment made to Available Funds and Expendable Financial Resources will not match.

The financial model's growth assumption is different for FY 2020-21 and the four following years. To account for the financial impacts of the COVID-19 pandemic, if a university had negative growth for available funds, operating expenses, or expendable resources from FY 2018-19 to FY2019-20, then the growth rate is the prior year's negative growth multiplied by two. The negative growth is multiplied by two to account for two semesters of pandemic

restrictions since the pandemic began in the Spring semester of FY 2019-20. Negative growth is capped at -12.00 percent as that was the largest negative growth rate for a constituent institution during the Great Recession. If a university had positive growth for available funds, operating expenses, or expendable resources from FY 2018-19 to FY2019-20, then the growth rate is set to the Consumer Price Index (CPI) for October 2020 of 1.30 percent. The four subsequent years use the CPI for the growth rate as well. Each institution was given the option, however, to adjust the growth factor for each of the model components based on its reasonable expectations for its performance over the study period. Any such adjustment, along with the factors considered in making the adjustment, is described in the individual institution reports attached as **Appendix D**.

Appendix D: Reports from Constituent Institutions

UNC SYSTEM FY 2020 DEBT CAPACITY STUDY

May 26, 2021

Overview of FY 2020 Debt Capacity Study

UNC System Report

- G.S. 116D-56 requires the Board to advise stakeholders "on the **estimated debt capacity of The University of North Carolina for the upcoming five fiscal years**."
- The Debt Capacity Study focuses on the following elements:
  - UNC System's current approach to evaluating debt and the complexity of the credit rating process;
  - Assignment of each institution's estimated debt capacity over a five-year period; and
  - Recommendations for the use of the Study and suggestions for future improvement.
- All 16 institutions maintain or increase their debt capacity over the five-year study period, 7 institutions have increased their debt capacity compared to last year, and all 16 institutions have improved at least one of their primary financial ratios since the 2019 study.

Overview of FY 2020 Debt Capacity Study

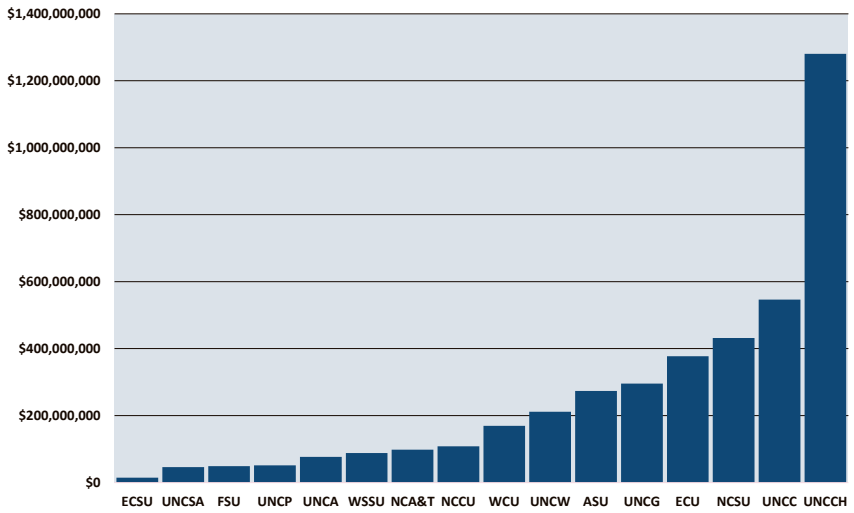
Campus Reports

- Each campus report provides context for the institution's financial model and addresses the legislative requirements.
- Campus reports contain the following components:
  - Overview of recent enrollment trends and other general performance metrics;
  - Explanation of factors considered in setting growth factors;
  - Summary of projected results for the financial model's four financial ratios;
  - Current debt and credit profiles, including details on financed projects, sources of repayment, and recommendations for maintaining or improving the institution's credit rating; and
  - Copy of any existing debt management policy.

Debt Capacity Basics

- What does "projected debt capacity," as used in the Study, measure and mean?
  - Calculates debt capacity at the end of the Study Period, assuming each campus issues no additional debt other than financings already approved by the General Assembly
  - Paying down existing debt and projected growth in Available Funds generally lead to an increase in capacity
- Why might the debt capacity of a campus decrease in future years?
  - Issuance of additional debt not already captured in the model
  - Deterioration in factors incorporated in Available Funds calculation (investments, auxiliary revenues, etc.)

FY 2020 Total Debt by Institution



THE UNIVERSITY OF NORTH CAROLINA SYSTEM

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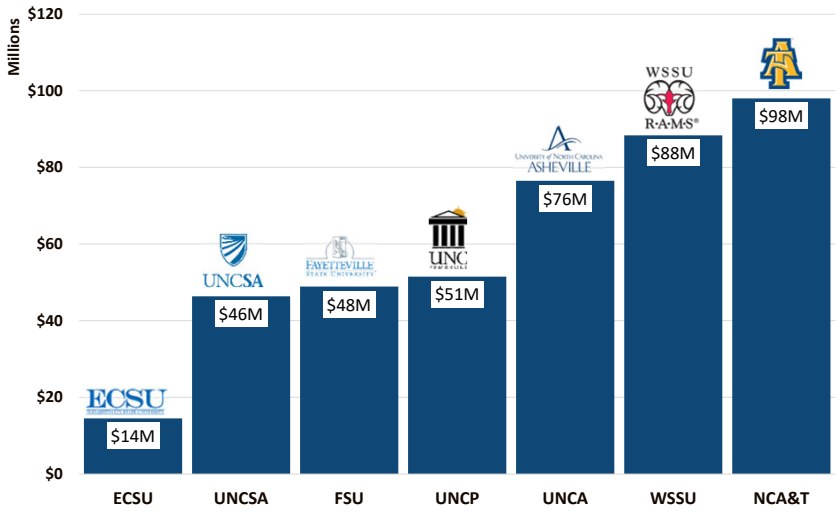
FY 2020 Total Debt by Institution with < $100M in Total Debt



THE UNIVERSITY OF NORTH CAROLINA SYSTEM

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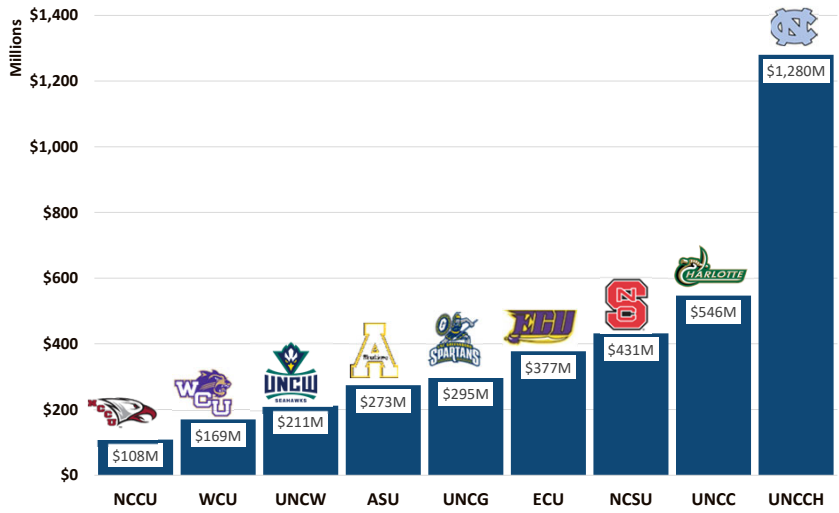
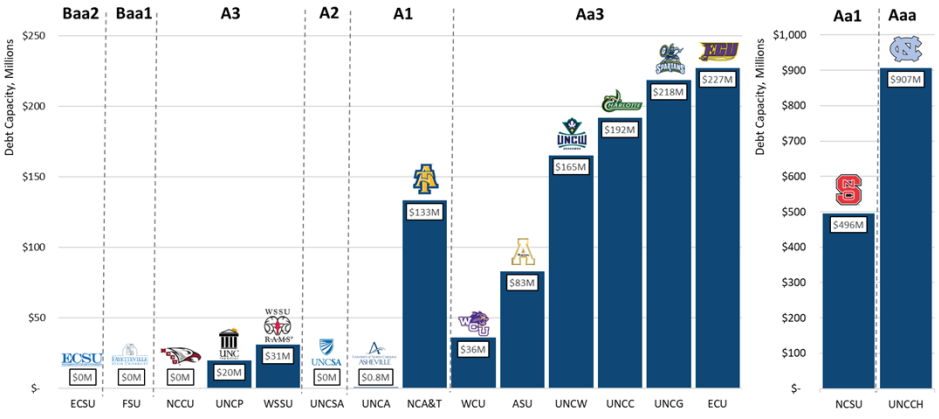
FY 2020 Total Debt by Institution with > $100M in Total Debt



THE UNIVERSITY OF NORTH CAROLINA SYSTEM

7

Current Debt Capacity



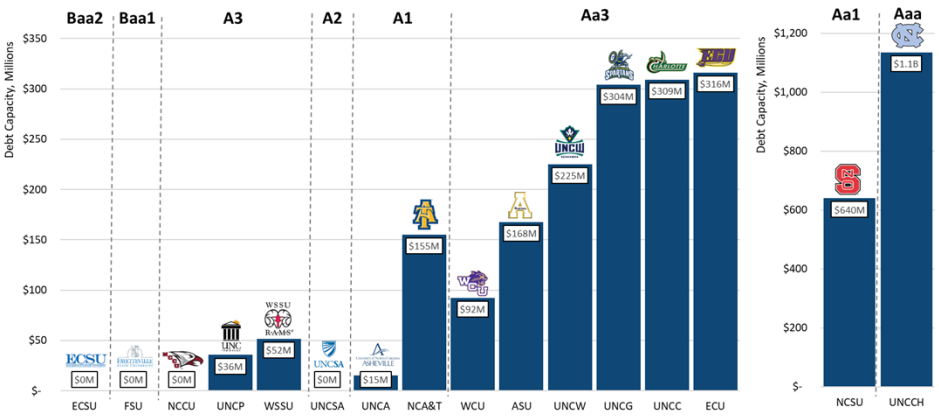
The debt capacity figures for NC State and UNC-CH have been presented in a separate chart using a compressed scale to make the debt capacity figures for the other institutions easier to interpret. Institutions showing no debt capacity have a debt to obligated resources ratio that is higher than the institution's target policy.

FSU and UNCP are not currently rated by Moody's. FSU and UNCP have been grouped based on their corresponding ratings from either Standard and Poor's or Fitch.

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

8

Projected Debt Capacity in 2025



The debt capacity figures for NC State and UNC-CH have been presented in a separate chart using a compressed scale to make the debt capacity figures for the other institutions easier to interpret. Institutions showing no debt capacity have a debt to obligated resources ratio that is higher than the institution's target policy.

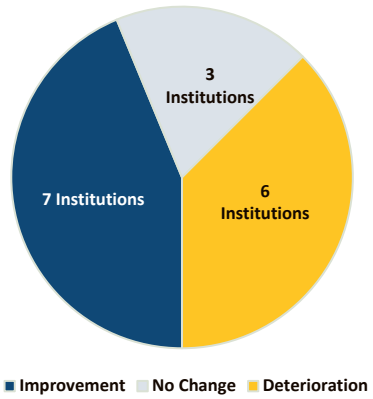
FSU and UNCP are not currently rated by Moody's. FSU and UNCP have been grouped based on their corresponding ratings from either Standard and Poor's or Fitch.

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

9

Campus Debt Capacity Trends

Debt Capacity vs. FY 2019 Study



Breakdown of Debt Capacity Decreases

- Debt capacity decreases when institutions issue new debt for capital projects.
- Several campuses have issued new debt or plan to during the Study period including:
  - NC State: $92M for Carmichael Recreation, Fitts-Woolard Hall, and Plant Sciences Building
  - UNC-CH: $125M for 10 projects
  - WCU: $90M for dorm construction and retiring old debt

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

10

Comparison of Campus Ratios to FY 2019

Institution	Debt to Obligated Resources	5-Year Payout Ratio	Expendable Resources to Debt	Debt Service to Operating Expenses
ASU				
ECU				
ECSU				
FSU				
N.C. A&T				
NCCU				
NCSU				
UNCA				
UNCCH				
UNCC				
UNCG				
UNCP				
UNCW				
UNCSA				
WCU				
WSSU				

Improvement from prior year
Decline from prior year
No change from prior year

Observations

- Every institution improved in at least one of the Study's primary ratios.
- Two institutions improved in all four of the primary ratios.
- Debt to Obligated Resources saw the most declines from FY 2019.
- 5-Year Payout Ratio saw the most improvements from FY 2019.

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

11

Campus Credit Ratings Used in the Study

Institution	Moody's	S&P	Fitch
ASU	Aa3		
ECSU	Baa2		
ECU	Aa3	AA-	
FSU		BBB+	A
NC A&T	A1		AA-
NCCU	A3		
NC State	Aa1	AA	
UNCA	A1		
UNC-CH	Aaa	AAA	AAA
UNCC	Aa3	A+	
UNCG	Aa3	A+	
UNCP		A-	
UNCSA	A2		
UNCW	Aa3		
WCU	Aa3		
WSSU	A3	BBB+	

Observations

- Two institutions received downgrades since last year's study:
  - Moody's downgraded ECU from Aa2 to Aa3.
  - S&P downgraded FSU from A- to BBB+ and Fitch downgraded FSU from A+ to A.
- One institution received a credit upgrade since last year's study:
  - Fitch upgraded N.C. A&T from A+ to AA-.
- Moody's confirmed ASU's Aa3 credit rating in Spring 2021 and upgraded the outlook to stable from negative.

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

12

THANK YOU

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QUESTIONS?

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THE UNIVERSITY OF NORTH CAROLINA SYSTEM

MEETING OF THE BOARD OF GOVERNORS
Committee on Budget and Finance
May 26, 2021

AGENDA ITEM

A-5. Establishment of For-Profit Associated Entity –
University of North Carolina at Chapel Hill .....Jennifer Haygood

Situation: The University of North Carolina at Chapel Hill has requested approval to establish a for-profit associated entity ("KFBSF Real Estate Fund V") to manage real estate investment funds as an educational program at the Kenan-Flagler School of Business.

Background: Section 600.2.5.2[R] (specifically section C.2.) of the UNC Policy Manual requires constituent institutions to receive approval from the Board of Governors to establish an associated entity on a for-profit basis. Since 2006, the Kenan-Flagler School of Business has established seven for-profit student investment funds (three private equity and four real estate) with Board approval. These funds are generally $2.5 million to $3.5 million in size and are established primarily as an educational program. Students in both the Master of Business Administration (MBA) and Bachelor of Science in Business Administration (BSBA) programs evaluate investment opportunities and make recommendations to the General Partner, KFBSF, Inc., a N.C. nonprofit corporation established by Kenan-Flagler Business School Foundation, Inc. (Business Foundation). In addition to the General Partner, profits are distributed to the Limited Partners. Any funds to the General Partner in excess of expenses are transferred to the Business Foundation.

Assessment: These funds provide MBA and BSBA students with hands-on experience in operating a private investment fund. KFBSF Real Estate Funds I, II, and III are fully invested, and KFBSF Real Estate Fund IV is almost fully invested. If future students are to participate in this educational program, additional funds will need to be raised and an additional real estate fund established ("KFBSF Real Estate Fund V").

Action: This item requires a vote by the committee, with a vote by the full Board of Governors through the consent agenda.

Establishment of For-Profit Associated Entity – University of North Carolina at Chapel Hill

ISSUE OVERVIEW

In September 2006, the Board of Governors approved a request from the Kenan-Flagler School of Business of The University of North Carolina at Chapel Hill to establish three associated entities: (1) KFBSF Private Equity Fund I, L.P.; (2) KFBSF Real Estate Fund I, L.P. as for-profit investment funds; and (3) KFBSF, Inc., a North Carolina not-for-profit corporation of which the Kenan-Flagler Business School Foundation, Inc. (Business Foundation) is the sole member and serves as General Partner for the funds. The Board of Governors approved similar requests to establish Private Equity Fund II, L.P. (in 2010), Real Estate Fund II, L.P. (in 2011), Real Estate Fund III, L.P. (in 2014), Private Equity Fund III, L.P. (in 2015), and Real Estate Fund IV (in 2017) without tax-exempt status. These student investment funds are all part of an educational program of the Business School and each fund ranges from $2.5 million to $3.5 million in size.

The Limited Partner investors are by invitation only, generally have a relationship with the school, and must meet certain eligibility requirements. In addition to the General Partner, profits are distributed to the Limited Partners. There are 31 Limited Partners in Real Estate Fund I, 39 Limited Partners in Real Estate Fund II, 51 Limited Partners in Real Estate Fund III, and 55 Limited Partners in Real Estate Fund IV. Any funds to the General Partner in excess of expenses are transferred to the Business Foundation.

The General Partner is organized and operated to support the Business School and its educational programs. It is managed under the direction of its board of directors, which consists of six directors, four of whom are employees of the university and two of whom are elected by the board of directors of the Business Foundation. The General Partner is also an "Associated Entity" under Board of Governors rules and has adopted conflict of interest, document retention, and whistleblower policies in accordance with the rules and on behalf of these investment funds.

Kenan-Flagler and UNC-Chapel Hill now request authority to establish an eighth student investment fund — KFBSF Real Estate Fund V, L.P. — since KFBSF Real Estate Fund IV, L.P. is almost fully invested. If future students are to participate in this educational program, additional funds will need to be raised and an additional real estate fund established. Section 600.2.5[R] (specifically section C.2.) of the UNC Policy Manual requires that associated entities have nonprofit corporate and tax-exempt status unless the Board of Governors approve otherwise.

The primary objective of these limited partnership funds is to give selected students hands-on experience in operating private investment funds. To our knowledge, all of the KFBSF Real Estate Funds are the only student-managed real estate private equity funds in the U.S. These students work with faculty and friends of Kenan-Flagler to identify and evaluate investment opportunities and to make investment recommendations to the General Partner. Students participate, without pay, as part of an investment management course for academic credit. After an investment is made by the partnerships, the students monitor the investment. Through the identification, evaluation and monitoring process, students gain insights into the operation and management of private investment funds and their portfolio companies as well as establish personal and professional relationships with investment managers. A secondary objective is to provide investment returns to the partners who are the investors.

It is recommended that the Board of Governors approve the establishment of KFBSF Real Estate Fund V, L.P. as a UNC-Chapel Hill associated entity and an educational program at the Kenan-Flagler School of Business without obtaining nonprofit tax-exempt status.

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

MEETING OF THE BOARD OF GOVERNORS
Committee on Budget and Finance
May 26, 2021

AGENDA ITEM

A-6. Capital Improvement Projects – NC State University, UNC Asheville, and NC School of Science and Mathematics..... Katherine Lynn

Situation: University of North Carolina at Asheville and North Carolina School of Science and Mathematics have requested new authorizations for three capital improvement projects and North Carolina State University has requested increased authorization for one capital improvement project.

Background: The Board of Governors may authorize capital construction projects at UNC System institutions using available funds.

Assessment: North Carolina State University, University of North Carolina at Asheville, and North Carolina School of Science and Mathematics are requesting projects that meet the statutory requirements, and it is recommended that the Board of Governors approve the projects and the method of funding. It is further recommended that these projects be reported to the NC Office of State Budget and Management as non-appropriated projects that do not require any additional debt or burden on state appropriations.

Action: This item requires a vote by the committee, with a vote by the full Board of Governors through the consent agenda.

Capital Improvement Projects – NC State University, UNC Asheville, and NC School of Science and Mathematics

ISSUE OVERVIEW

UNC System institutions are required to request authority from the Board of Governors to proceed with non-appropriated projects using available funds (non-general funds). Non-appropriated capital projects are funded by the institution and include the construction, repair, or renovation of facilities such as residence halls, dining facilities, research buildings, athletic facilities, and student health buildings.

Three UNC System institutions have requested four capital improvement projects: three new projects and one project for increased authorization.

I. NEW PROJECTS

	Institution/Project Title	Total Project Cost ($)	Previous Authorization ($)	Requested Authorization ($)	Funding Source
University of North Carolina at Asheville					
1.	Ridges Parking Deck Emergency Repairs	$1,198,835	$0	$1,198,835	Trust Funds
UNCA Subtotal		*$1,198,835*	*$0*	*$1,198,835*	
North Carolina School of Science and Math					
2.	Residence Hall Renovations - Hill Phase I	$2,968,000	$800,000	$2,168,000	Donations and Gifts
3.	Academic Commons and Cafeteria Renovations - Phase I	$3,227,000	$1,200,000	$2,027,000	Donations and Gifts
NCSSM Subtotal		*$6,195,000*	*$2,000,000*	*$4,195,000*	
Grand Total		**$7,393,835**	**$2,000,000**	**$5,393,835**	

II. INCREASED AUTHORIZATION

	Institution/Project Title	Total Project Cost ($)	Previous Authorization ($)	Requested Authorization ($)	Funding Source
North Carolina State University					
4.	Page Hall Partial Renovation	$8,218,948	$5,750,000	$2,468,948	F&A (81%)/Carry Forward (19%)
NC State Subtotal		*$8,218,948*	*$5,750,000*	*$2,468,948*	
Grand Total		**$15,612,783**	**$7,750,000**	**$7,862,783**	

RECOMMENDATION

All projects and associated funding sources are in compliance with G.S. 143C-8-12 (State Budget Act).

It is recommended that these projects be authorized and reported to the NC Office of State Budget and Management as non-appropriated projects that do not require any additional debt or burden on state appropriations.

III. REPORTING

The following projects are being reported to the Board of Governors and Fiscal Research Division in compliance with GS 143C-8-13 (d) which permits Chancellors to authorize Repairs and Renovation projects less than $600,000 in 13 allowable categories.

Institution/Project Title		Amount	Fund Source	R&R Category
North Carolina Central University				
1.	Art Museum Roof Replacement	$260,000	General Fund	1 - Roof repairs and replacements

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

MEETING OF THE BOARD OF GOVERNORS
Committee on Budget and Finance
May 26, 2021

AGENDA ITEM

A-7. Disposition of Property by Reallocation – NC State University..... Katherine Lynn

Situation: North Carolina State University is requesting approval of disposition by assent to reallocation to the North Carolina Department of Transportation of two parcels to support the I-440 Expansion project.

Background: NC State is requesting approval to dispose of two parcels including approximately 11 acres at Hillsborough Street and I- 440, and 7.24 acres at the intersection of Hillsborough Street and Blue Ridge Road. The funds from the disposition will revert to NC State by statute and will be used to remedy the impact from the I-440 expansion project. The total estimated value of the disposition is $6.15 million.

Assessment: The disposition of property by deed is recommended to support the I-440 expansion project.

Action: This item requires a vote by the committee, with a vote by the full Board of Governors through the consent agenda.

Disposition of Property by Deed – North Carolina State University

ISSUE OVERVIEW

NC State University is requesting approval of disposition of property by assent to reallocation to the North Carolina Department of Transportation for the I-440 Expansion project. The request for reallocation includes the following two properties:

Parcel 1: An 11-acre tract located at the intersection of Hillsborough Street and I-440, ground leased to the NC State University Partnership Corporation. The legal property description will be determined by survey and will include approximately 2.78 acres of permanent right of way, 0.031 acres of permanent easements and 0.233 acres of temporary easements. Estimated value is $3,075,000.

Parcel 2: A 7.24-acre tract located at the intersection of Hillsborough Street and Blue Ridge Road; ground leased to the NC State University Partnership Corporation. The legal property description will be determined by survey and will include approximately 2.507 acres of permanent right of way and 0.691 acres of permanent easements. Estimated value is $3,075,000.

The total acreage to be reallocated is approximately 18.24 acres with a total estimated value of $6.15 million. By statute, the funds will revert to NC State and shall be used to remedy the impact from the I-440 expansion project.

RECOMMENDATION

It is recommended that the Board of Governors approve this request.

Form PO-2
Rev. 10/01
Original and one copy to State Property Office

STATE OF NORTH CAROLINA
DEPARTMENT OF ADMINISTRATION

DISPOSITION OF REAL PROPERTY

Institution or Agency: North Carolina State University **Date:** February 26, 2021

The Department of Administration is requested, as provided by GS 146-28 to dispose of the real property herein described by ~~(sale), (lease), (rental), or (land exchange)~~:

Assent to reallocation

This disposition is recommended for the following reasons:

The subject property is being acquired by the Department of Transportation as part of the I-440 Expansion Project (STIP Project No. U-2719).

Description of Property: ***(Attach additional pages if needed.)***

The subject property, identified as the 11 acre tract ground leased to the NC State University Partnership Corporation and located at the intersection of Hillsborough Street and I-440. The final quantity, description and exact location of the reallocated property will be determined by survey and is expected to include +/- 2.78 acres of Permanent Right of Way, +/- 0.031 acres of Permanent Easements, and +/- 0.233 acres of Temporary Easements.

Estimated value: $3,075,000.00

Where deed is filed, if known: Wake County Register of Deeds

If deed is in the name of agency other than applicant, state the name: N/A

Rental income, if applicable, and suggested terms: N/A

Funds from the disposal of this property are recommended for the following use:

Pursuant to Section 34.4, S.B. 99, 2017 Reg. Sess. (NC 2017), compensation for any impact from the I-440 Expansion Project to lands allocated to North Carolina State University shall be deposited in the university's account and shall be used to remedy the impact from the I-440 Expansion Project.

Action recommending this transaction was taken by the Board of Trustees **at its meeting held on February 26, 2021.**

Signature Randy Woodson
Chancellor

DISPOSITION
OF REAL PROPERTY

ASSENT TO REALLOCATION

GRANTOR State of North Carolina on behalf of North Carolina State University

GRANTEE State of North Carolina

LOCATION Hillsborough Street and I-440 (Property Leased to the NC State University Partnership Corporation)

SIZE +/- 2.780 acres of Permanent Right of Way
+/- 0.031 acres of Permanent Easements
+/- 0.233 acres of Temporary Easements

RATE $3,075,000.00

TERM Permanent

USE The subject property is being acquired by the Department of Transportation as part of the I-440 Expansion Project (STIP Project No. U-2719).

TRANSMITTAL OF REQUEST FOR ACQUISITION/DISPOSITION OF REAL PROPERTY

Form Number: PO-2

Preparation Date: 2/26/2021

Request: Assent to reallocation of property located at the intersection of Hillsborough Street and I-440 and ground leased to the NC State University Partnership Corporation being acquired by the Department of Transportation as part of the I-440 Expansion Project (STIP Project No. U-2719).

Institution NORTH CAROLINA STATE UNIVERSITY

RECOMMENDED BY CHANCELLOR, NCSU

Randy Woods
(Chancellor's Signature)

RECOMMENDED BY COMMITTEE ON BUILDINGS AND PROPERTY

DocuSigned by:
Ed Stack
F4E0D95567E1402...
(Chairman's Signature)

RECOMMENDED BY BOARD OF TRUSTEES, NCSU

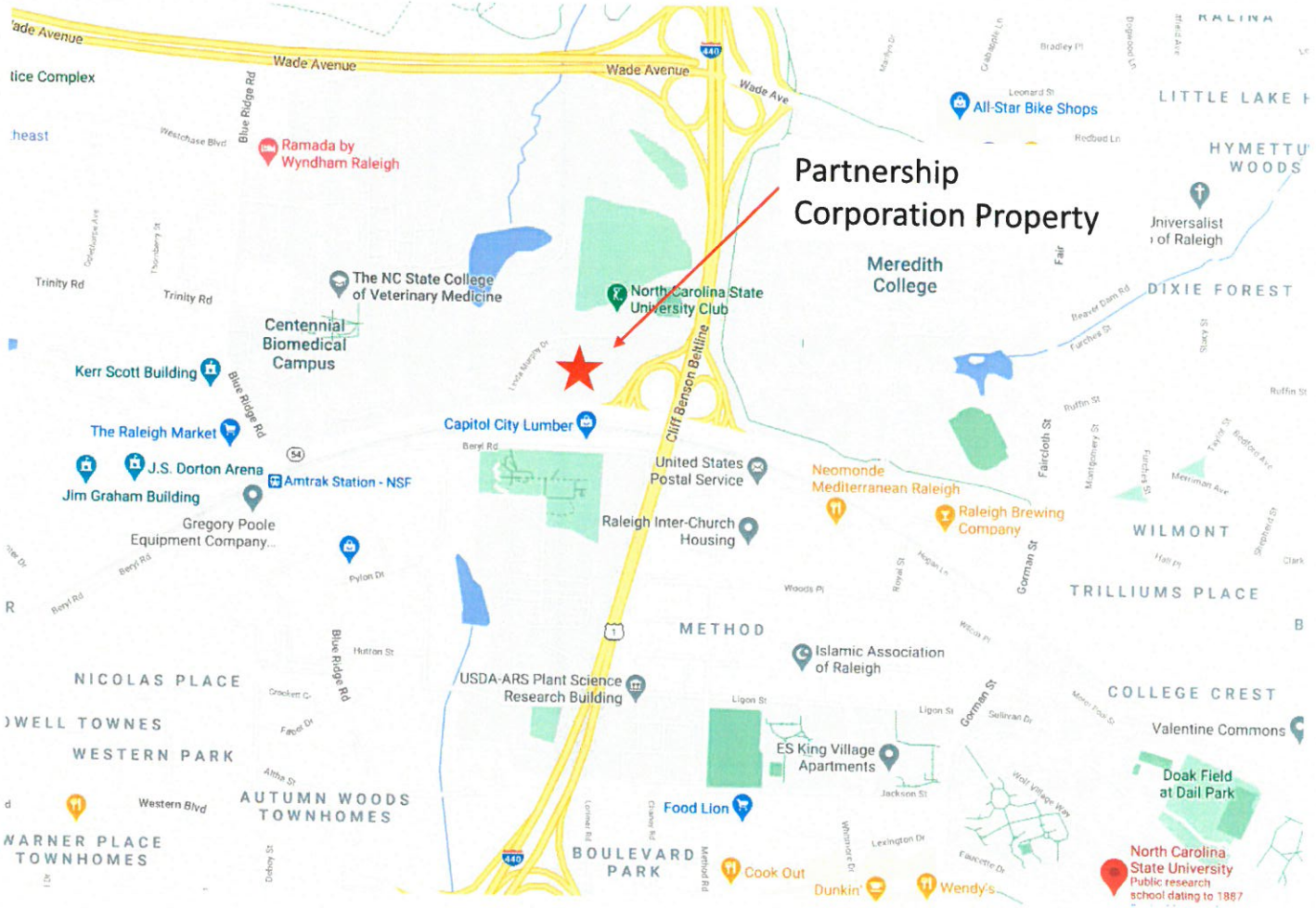
DocuSigned by:
80EEED2D02E04C6...
(Chairman's Signature)

RECOMMENDED BY BOARD OF GOVERNORS

(Secretary's Signature)

PO2 for Partnership Corp Property at Hillsborough Street and I-440

Vicinity Map



PO2 for Partnership Corp Property at Hillsborough Street and I-440

Green: 2.78 acres of Permanent Right of Way
Red: 0.031 acres of Permanent Easements
Yellow: 0.233 acres of Temporary Easements

Form PO-2
Rev. 10/01
Original and one copy to State Property Office

STATE OF NORTH CAROLINA
DEPARTMENT OF ADMINISTRATION

DISPOSITION OF REAL PROPERTY

Institution or Agency: North Carolina State University **Date:** February 26, 2021

The Department of Administration is requested, as provided by GS 146-28 to dispose of the real property herein described by ~~(sale), (lease), (rental), or (land exchange)~~:

Assent to reallocation

This disposition is recommended for the following reasons:

The subject property is being acquired by the Department of Transportation as part of the I-440 Expansion Project (STIP Project No. U-2719).

Description of Property: ***(Attach additional pages if needed.)***

The subject property, identified as the 7.24 acre tract ground leased to the NC State University Partnership Corporation and located at the intersection of Hillsborough Street and Blue Ridge Road. The final quantity, description and exact location of the reallocated property will be determined by survey and is expected to include +/- 2.507 acres of Permanent Right of Way, and +/- 0.691 acres of Permanent Easements.

Estimated value: $3,075,000.00

Where deed is filed, if known: Wake County Register of Deeds

If deed is in the name of agency other than applicant, state the name: N/A

Rental income, if applicable, and suggested terms: N/A

Funds from the disposal of this property are recommended for the following use:

Pursuant to Section 34.4, S.B. 99, 2017 Reg. Sess. (NC 2017), compensation for any impact from the I-440 Expansion Project to lands allocated to North Carolina State University shall be deposited in the university's account and shall be used to remedy the impact from the I-440 Expansion Project.

Action recommending this transaction was taken by the Board of Trustees **at its meeting held on February 26, 2021.**

Signature _____
Chancellor

DISPOSITION
OF REAL PROPERTY

ASSENT TO REALLOCATION

GRANTOR State of North Carolina on behalf of North Carolina State University

GRANTEE State of North Carolina

LOCATION Hillsborough Street and Blue Ridge Road (Property Leased to the NC State University Partnership Corporation)

SIZE +/- 2.507 acres of Permanent Right of Way
+/- 0.691 acres of Permanent Easements

RATE $3,075,000.00

TERM Permanent

USE The subject property is being acquired by the Department of Transportation as part of the I-440 Expansion Project (STIP Project No. U-2719).

TRANSMITTAL OF REQUEST FOR ACQUISITION/DISPOSITION OF REAL PROPERTY

Form Number: PO-2

Preparation Date: 2/26/2021

Request: Assent to reallocation of property located at the intersection of Hillsborough Street and Blue Ridge Road and ground leased to the NC State University Partnership Corporation being acquired by the Department of Transportation as part of the I-440 Expansion Project (STIP Project No. U-2719).

Institution NORTH CAROLINA STATE UNIVERSITY

RECOMMENDED BY CHANCELLOR, NCSU

Randy Woods
(Chancellor's Signature)

RECOMMENDED BY COMMITTEE ON BUILDINGS AND PROPERTY

DocuSigned by:
Ed Stack
F4E0D95567E1402...
(Chairman's Signature)

RECOMMENDED BY BOARD OF TRUSTEES, NCSU

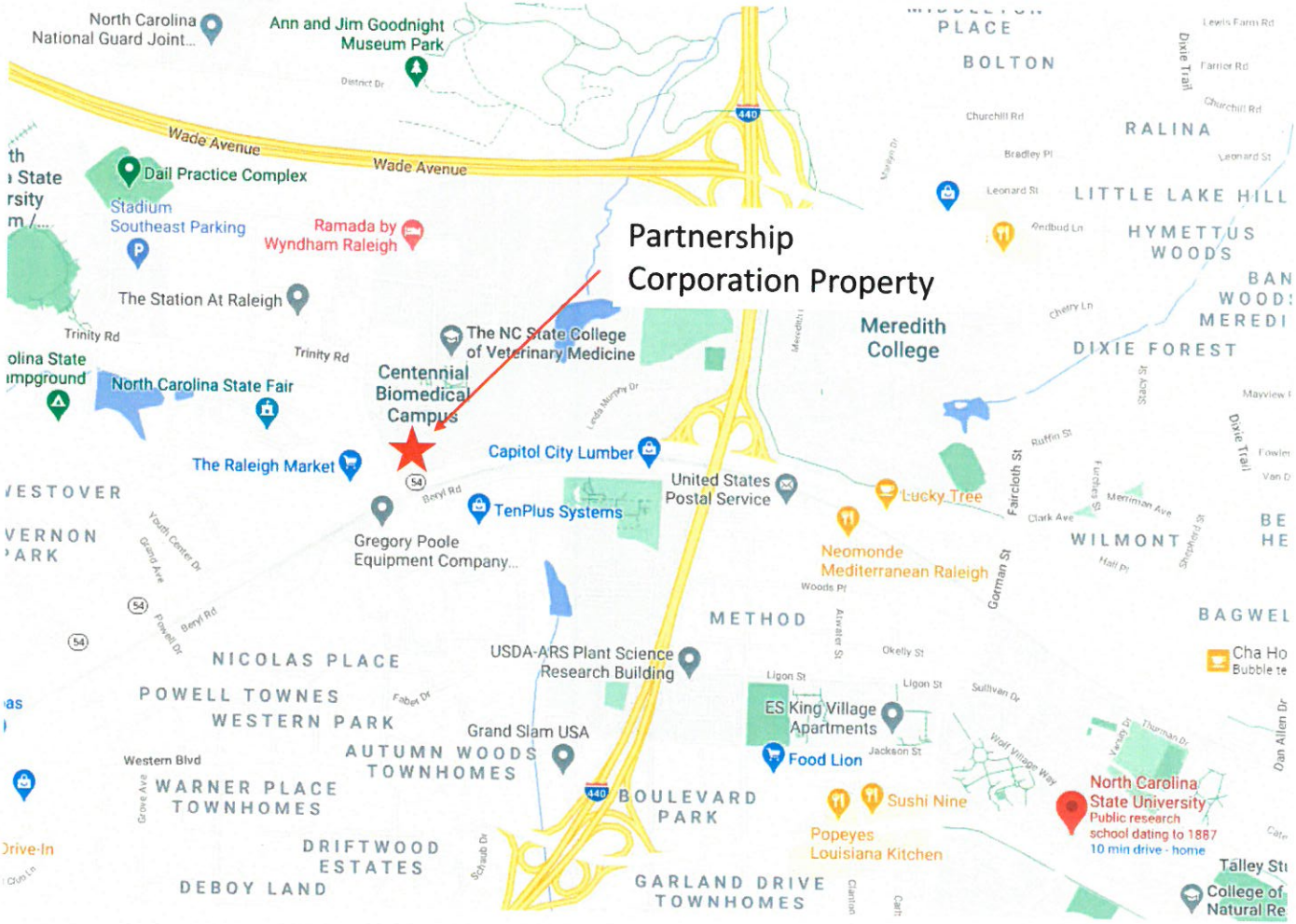
DocuSigned by:
80EEED2D02E04C6...
(Chairman's Signature)

RECOMMENDED BY BOARD OF GOVERNORS

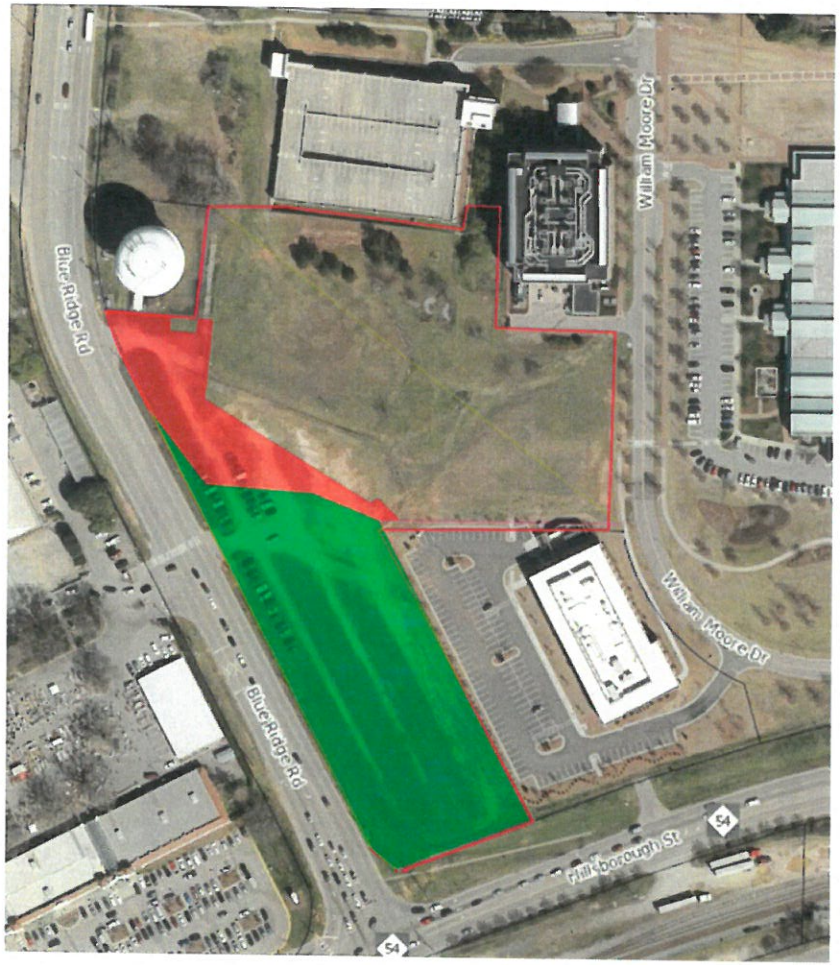
(Secretary's Signature)

PO2 for Partnership Corp Property at Hillsborough Street and Blue Ridge Road

Vicinity Map



PO2 for Partnership Corp Property at Hillsborough Street and Blue Ridge Road



Green: 2.507 acres of Permanent Right of Way
Red: 0.691 acres of Permanent Easements

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

MEETING OF THE BOARD OF GOVERNORS
Committee on Budget and Finance
May 26, 2021

AGENDA ITEM

A-8. Remarketing of Special Obligation Bonds –
University of North Carolina at Chapel Hill .....Jennifer Haygood

Situation: The University of North Carolina at Chapel Hill requests that the Board approve the remarketing of (1) its General Revenue Refunding Bonds, 2019A (the "2019A Bonds"), and (2) its General Revenue Refunding Bonds, 2019B Bonds (the "2019B Bonds," and together with the 2019A Bonds, the "2019 Bonds") prior to their mandatory tender date and the delivery of a related remarketing supplement. This request for approval is a part of the administration of 2019 Bonds financing and is based on renewal of the mandatory purchase date as specified in the Sixteenth Series Indenture.

Background: The Board of Governors is authorized to issue special obligation bonds and bond anticipation notes for capital improvements projects that have been approved by the General Assembly. All projects in this request have been previously approved by the Board of Governors and the General Assembly. UNC-Chapel Hill is requesting to remarket the 2019 Bonds, the proceeds of which refunded bonds that were originally issued in 2012 and 2016. The Board has previously approved the remarketing or refinancing of the bonds in 2016 and 2019.

Assessment: The Board issued the 2019 Bonds to refund variable rate bonds first issued in 2012 and 2016 to finance the construction, renovation, improvement, equipping and furnishing of certain facilities on UNC-Chapel Hill's campus. The 2019 Bonds were issued as "floating rate notes" and are subject to mandatory tender on December 1, 2021 in accordance with their terms. The 2019 Bonds may be refinanced or remarketed on or after June 1, 2021 without penalty.

UNC-Chapel Hill requests that the Board approve (1) the remarketing of the 2019 Bonds prior to their mandatory tender date and (2) the delivery of a new remarketing supplement in connection with the remarketing of the 2019 Bonds. This request would authorize UNC-Chapel Hill to remarket the 2019 Bonds in accordance with their terms in a new variable interest rate mode and a new mandatory purchase date while maintaining their original maturity dates. Approval of remarketing the 2019 Bonds will avoid tendering the bonds on December 1, 2021, or incurring additional cost of issuance related to another transaction.

Currently, UNC-Chapel Hill is rated "Aaa" with a stable outlook by Moody's Investors Service, "AAA" with a stable outlook by Standard & Poor's Global Ratings, and "AAA" with a stable outlook by Fitch Ratings. The transaction is expected to have no impact on UNC-Chapel Hill's credit ratings.

Action: This item requires a vote by the committee, with a vote by the full Board of Governors through the consent agenda.

Remarketing of Special Obligation Bonds – University of North Carolina at Chapel Hill

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.

The University of North Carolina at Chapel Hill requests that the Board approve the remarketing of (1) its General Revenue Refunding Bonds, 2019A (the "2019A Bonds") and (2) its General Revenue Refunding Bonds, 2019B Bonds (the "2019B Bonds," and together with the 2019A Bonds, the "2019 Bonds") prior to their mandatory tender date and the delivery of a related remarketing supplement. UNC-Chapel Hill is requesting to remarket the 2019 Bonds, the proceeds of which refunded bonds that were originally issued in 2012 and 2016. The Board has previously approved the remarketing or refinancing of the bonds in 2016 and 2019.

The 2019 Bonds were issued as "floating rate notes" and are subject to mandatory tender on December 1, 2021, in accordance with their terms. The 2019 Bonds may be refinanced or remarketed on or after June 1, 2021, without penalty. Approval of remarketing the 2019 Bonds will avoid tendering the bonds on December 1, 2021, or incurring additional cost of issuance related to another transaction.

UNC-Chapel Hill requests that the Board approve (1) the remarketing of the 2019 Bonds prior to their mandatory tender date and (2) the delivery of a new remarketing supplement in connection with the remarketing of the 2019 Bonds. This request would authorize UNC-Chapel Hill to remarket the 2019 Bonds in accordance with their terms in a new variable interest rate mode while maintaining their original maturity dates.

UNC-Chapel Hill anticipates that each series of the 2019 Bonds will be remarketed on a variable rate basis and will have a mandatory purchase date within one to three years. Requests for remarketing bonds is administrative and shall occur prior to each mandatory purchase date. To reduce liquidity risk associated with each mandatory purchase date, UNC-Chapel Hill expects the 2019 Bonds to be remarketed with a term-out provision that will allow UNC-Chapel Hill to repay or restructure the 2019 Bonds over a period of up to three years following each mandatory purchase date, consistent with the 2019 Bonds' existing terms.

The 2021 Bonds will be remarketed by BofA Securities, Inc. who is a member of the pool of approved underwriters selected by UNC-Chapel Hill through a competitive RFP process.

Currently, UNC-Chapel Hill is rated "Aaa" with a stable outlook by Moody's Investors Service, "AAA" with a stable outlook by Standard & Poor's Global Ratings, and "AAA" with a stable outlook by Fitch Ratings. The transaction is not expected to have any impact on UNC-Chapel Hill's credit ratings.

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

RECOMMENDATION

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

RESOLUTION OF THE BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA SYSTEM AUTHORIZING THE CONVERSION AND REMARKETING OF SPECIAL OBLIGATION BONDS FOR THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

WHEREAS, by Chapter 116 of the General Statutes of North Carolina, the Board of Governors (the *"Board"*) of the University of North Carolina System (the *"UNC System"*) is vested with general control and supervision of the constituent institutions of the UNC System; 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 bond 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 previously issued the University of North Carolina at Chapel Hill General Revenue Refunding Bonds, Series 2019A and the University of North Carolina at Chapel Hill General Revenue Refunding Bonds, Series 2019B (the *"2019 Bonds"*), the proceeds of which were used to refinance the construction, renovation, improvement, equipping and furnishing of certain facilities on the UNC Chapel Hill campus, under the General Indenture and Series Indenture, Number 16 dated as of February 1, 2019 (the *"Sixteenth Series Indenture"*) between the Board and the Trustee;

WHEREAS, the Board has determined to convert the interest rate and remarket the 2019 Bonds that are subject to mandatory tender by their terms on December 1, 2021 in accordance with the Sixteenth Series Indenture;

WHEREAS, in connection with the remarketing of the 2019 Bonds, the Board has determined to cause to be prepared and delivered a Remarketing Supplement (the *"2019 Bonds Remarketing Supplement"*), a form of which has been made available to the Board;

NOW, THEREFORE, BE IT RESOLVED by the Board as follows:

Section 1. ***Remarketing of 2019 Bonds.*** That the Board authorizes the conversion of the interest rate and remarketing of the 2019 Bonds in accordance with the terms of the Sixteenth Series Indenture. The Authorized Officers, be and they hereby are each authorized, empowered and directed to execute and deliver such amendments to the Sixteenth Series Indenture for and on behalf of the Board as shall to them seem necessary, desirable or appropriate in remarketing the 2019 Bonds. BofA Securities, Inc. (the *"Remarketing Agent"*) is hereby appointed as the Remarketing Agent for the remarketing of the 2019 Bonds. The Vice Chancellor for Finance and Operations at UNC-Chapel Hill, in consultation with the SVP-Finance, is authorized and directed to establish the terms for the remarketing of the 2019 Bonds in accordance with the Sixteenth Series Indenture. The 2019 Bonds may be remarketed at a premium to provide funds, in addition to funds to pay the tender price of the 2019 Bonds, to pay the costs of issuance related to the remarketing of the 2019 Bonds. The form, terms and content of the 2019 Bonds Remarketing Supplement be and the same hereby are in all respects authorized, approved and confirmed, and the use of the 2019 Bonds Remarketing Supplement by the Remarketing Agent in connection with the remarketing of the 2019 Bonds is hereby in all respects authorized, approved, ratified and confirmed. The Chairman of the Board, the President, the SVP-Finance and Vice Chancellor for Finance and

Operations of UNC Chapel Hill, individually or collectively, be and they hereby are each authorized, empowered and directed to deliver the 2019 Bonds Remarketing Supplement for and on behalf of the Board in substantially the form and content of the 2019 Bonds Remarketing Supplement presented to the Board, but with such changes, modifications, additions or deletions therein as shall to them seem necessary, desirable or appropriate.

Section 2. ***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 remarketing of the 2019 Bonds and otherwise contemplated by this Resolution. Any provision in this Resolution that authorizes more than one officer to take certain actions shall be read to permit such officers to take the authorized actions either individually or collectively. The Chancellor and the Vice Chancellor for Finance and Operations at UNC-Chapel Hill, or their respective designees, individually or collectively, are hereby authorized to execute and deliver all documents and take such actions as may be necessary to the on-going administration and the remarketing of the 2019 Bonds and otherwise contemplated by this Resolution on behalf of UNC-Chapel Hill.

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 immediately on the date of its adoption.

PASSED, ADOPTED, AND APPROVED this 27th day of May, 2021.

STATE OF NORTH CAROLINA
COUNTY OF ORANGE

I, Meredith McCullen, Secretary of the University of North Carolina System, DO HEREBY CERTIFY that (1) the foregoing is a full, true and correct copy of the approving resolution adopted by the Board of Governors of the University of North Carolina System at its meeting on May 27, 2021, and appearing in the minutes of such meeting, (2) notice of the meeting of the Board of Governors of the University of North Carolina System held on May 27, 2021 was sent to each member of the Board, and (3) a quorum was present at the meeting on May 27, 2021, at which time the foregoing Resolution was adopted.

WITNESS, my hand and the seal of the University of North Carolina System this ____ day of May, 2021

[SEAL]

_____

Meredith McCullen, Secretary of the University of North Carolina System

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

MEETING OF THE BOARD OF GOVERNORS
Committee on Budget and Finance
May 26, 2021

AGENDA ITEM

A-9. Sale of Special Obligation Bonds –
University of North Carolina at Chapel Hill .....Jennifer Haygood

Situation: The University of North Carolina at Chapel Hill requests that the Board of Governors issue special obligation bonds in aggregate principal amount not to exceed $178.5 million (the "2021 Bonds") for the purpose of (1) refinancing bonds issued on UNC-Chapel Hill's behalf in 2009 (the "2009 BABs"), (2) financing all or a portion of the costs of upgrades for the Morehead Chemistry Laboratory HVAC and campus-wide life safety improvements (collectively, the "New Money Projects"), (3) refunding UNC-Chapel Hill's outstanding General Revenue Bond, Series 2002A (the "Commercial Paper"), and (4) paying the costs of issuance with respect to the 2021 Bonds.

Background: The Board is authorized to issue special obligation bonds for capital projects that have been previously approved by the General Assembly. Except for financing approval for the New Money Projects, all projects in this request have been previously approved by the Board of Governors and the General Assembly.

Assessment: Due to the favorable interest rate environment and elimination of federal government subsidy risk, up to $113,750,000 of outstanding special obligation bonds issued on behalf of UNC-Chapel Hill may be refinanced for debt service savings. Current estimates indicate approximately $24 million in net present value savings, or approximately 21 percent of the par amount refunded, which is based on the assumed cost of funds of approximately 2.1 percent.

To take advantage of prevailing market conditions, reduce long-term interest rate risk, and streamline costs of issuance, UNC-Chapel Hill is also requesting authority (1) to refinance up to $36 million of its outstanding Commercial Paper (CP)originally issued to finance all or a portion of the projects for UNC-Chapel Hill and (2) to issue up to $28.75 million to finance all or a portion of the New Money Projects.

Currently, UNC-Chapel Hill is rated "Aaa" with a stable outlook by Moody's Investors Service, "AAA" with a stable outlook by Standard & Poor's Global Ratings, and "AAA" with a stable outlook by Fitch Ratings. The transaction is expected to have no impact on UNC-Chapel Hill's credit ratings.

Action: This item requires a vote by the committee, with a vote by the full Board of Governors through the consent agenda.

Sale of Special Obligation Bonds – University of North Carolina at Chapel Hill

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.

The University of North Carolina at Chapel Hill requests that the Board issue special obligation bonds in one or more series of tax-exempt or taxable bonds in an aggregate principal amount not to exceed $178.5 million for the purpose of (1) refinancing $113,750,000 of its outstanding Taxable General Revenue Bonds, Series 2009B Build America Bonds (the "2009B BABs"), (2) financing all or a portion of the costs of upgrades and improvements for the Morehead Chemistry Laboratory HVAC and campus-wide life safety improvements (collectively, the "New Money Projects"), (3) refunding UNC-Chapel Hill's outstanding General Revenue Bond, Series 2002A (the "Commercial Paper"), the proceeds of which were used to pay a portion of the costs of (a) a new media and communications studio, (b) renovations to Kenan Labs, (c) renovations to UNC-Chapel Hill's DLAM facilities, (d) the acquisition of Rizzo Center Phase III, and (e) the Translational Research Building (collectively, the "CP Projects"); and (4) paying costs associated with the issuance of the 2021 Bonds.

Except for financing approval for the New Money Projects, all projects in this request have been previously approved by the Board. The General Assembly approved (1) the Rizzo Center Phase III acquisition under S.L. 2013-394 (H.B. 480), (2) the media and communications studio, the renovations to Kenan Labs and to UNC-Chapel Hill's DLAM facilities, and the Medical Education Building under S.L. 2017-141 (H.B. 620), (3) the South Parking Deck and the Translational Research Building under S.L. 2018-35 (H.B. 1054), and (4) the New Money Projects under S.L. 2020-66 (S.B. 733). UNC-Chapel Hill has in place a reimbursement resolution related to the Morehead Chemistry Laboratory HVAC facility for $15.4 million declaring its intent to issue bonds and reimburse UNC-Chapel Hill for applicable project costs.

Current estimates indicate approximately $24 million in net present value savings by refunding the 2009B BABs, representing approximately 21 percent of the par amount refunded, which is based on an assumed cost of funds of approximately 2.1 percent. Because the 2009B BABs were issued as taxable "Build America Bonds" under the American Recovery and Reinvestment Act of 2009, UNC-Chapel Hill pays a taxable rate of interest on the 2009B BABs 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 since 2013 due to federal budget sequestration. In addition to the anticipated savings described above, refinancing the 2009B Bonds will eliminate the risk associated with any further reduction or elimination of the federal subsidy payments.

To take advantage of prevailing market conditions, reduce long-term interest rate risk, and streamline costs of issuance, UNC-Chapel Hill is also requesting authority (1) to refinance up to $36 million of its outstanding Commercial Paper originally issued to finance all or a portion of the CP Projects and (2) to issue up to $28.75 million to finance all or a portion of the New Money Projects.

The 2021 Bonds will be issued in one or more series of taxable and tax-exempt bonds based on the use of the refinanced facilities and market conditions at the time of pricing. The 2021 Bonds will be sold in the public market on a negotiated basis by BofA Securities, Inc., Goldman Sachs & Co. LLC, and Loop Capital Markets LLC, all members of the pool of approved underwriters selected by UNC-Chapel Hill through a competitive RFP process.

Currently, UNC-Chapel Hill is rated “Aaa” with a stable outlook by Moody’s Investors Service, “AAA” with a stable outlook by Standard & Poor’s Global Ratings, and “AAA” with a stable outlook by Fitch Ratings. The transaction is not expected to have any impact on UNC-Chapel Hill’s credit ratings.

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

RECOMMENDATION

It is recommended that the president of the University, or his 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 SYSTEM AUTHORIZING THE ISSUANCE OF SPECIAL OBLIGATION BONDS TO REFINANCE SPECIAL OBLIGATION BOND PROJECTS FOR THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

WHEREAS, by Chapter 116 of the General Statutes of North Carolina, the Board of Governors (the *"Board"*) of the University of North Carolina System (the *"UNC System"*) is vested with general control and supervision of the constituent institutions of the UNC System; 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 bond 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 University of North Carolina at Chapel Hill (*"UNC-Chapel Hill"*) and its financial advisor have advised the Board that it may be able to achieve debt service savings and reduce the risk of further cuts in federal subsidy payments by refunding the outstanding The University of North Carolina at Chapel Hill Taxable General Revenue Bonds (Build America Bonds), Series 2009B (the *"2009B Bonds"*) previously issued by the Board on behalf of UNC-Chapel Hill to finance and refinance various special obligation bond projects at UNC-Chapel Hill;

WHEREAS, UNC-Chapel Hill has advised the Board it would like to refund the outstanding The University of North Carolina at Chapel Hill General Revenue Bond, Series 2002A (the *"Commercial Paper Bonds"*) in order to provide long-term financing for the following special obligation bond projects all or a portion of which was financed with the outstanding Commercial Paper Bonds: (1) Rizzo Center Phase III Acquisition (authorized by S.L. 2013-394 of the 2013 Session Laws, (2) Media and Communications Studio (Athletics), DLAM Renovations (swing space for Berryhill Hall) & AAALAC Certification and Kenan Labs – Renovations to Labs 7A, 7B, 7C, 8B, & 8C for Applied Physics, each authorized by S.L. 2017-141 of the 2017 Session Laws and (3) Translational Research Building, authorized by S.L. 2018-35 of the 2018 Session Laws (collectively, the *"CP Projects"*);

WHEREAS, UNC-Chapel Hill has advised the Board that while it is in the market for the foregoing items, depending on market conditions, it would like to consider financing additional special obligation bond projects authorized by the General Assembly including Morehead Chemistry Laboratory HVAC Upgrades and Campus-Wide Life Safety Upgrades – Phase 1, each authorized by S.L. 2020-66 of the 2020 Session Laws (the *"2020 Bond Projects"*);

WHEREAS, to achieve the goals set forth above, the Board has determined to authorize the issuance of The University of North Carolina at Chapel Hill General Revenue Bonds (with appropriate descriptions and series designations) in one or more series (the *"Bonds"*) in an aggregate principal amount not to exceed $178,500,000 to (1) refund all or a portion of the 2009B Bonds and the Commercial Paper Bonds (collectively, the *"Refunded Bonds"*), (2) finance the 2020 Bond Projects and (3) pay the costs of issuing the Bonds; and

WHEREAS, the Board has determined to issue the Bonds under the General Trust Indenture dated as of January 15, 2001 (the *"General Indenture"*) between the Board and The Bank of New York, the successor to which is The Bank of New York Mellon Trust Company, N.A., as trustee (the *"Trustee*"), and a Series Indenture, Number 18 (the *"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 UNC-Chapel Hill or the Board in each Fiscal Year remaining after satisfying obligations of UNC-Chapel Hill or the Board under a trust indenture, trust agreement or bond resolution providing for the issuance of debt of the Board with respect to UNC-Chapel Hill as of the date of the General Indenture, including Unrestricted General Fund balances and Unrestricted Quasi-Endowment Fund balances shown as such on the UNC-Chapel Hill financial statements, but excluding (1) appropriations by the General Assembly of the State from the State General Fund, (2) tuition payments by UNC-Chapel Hill students, (3) funds whose purpose has been restricted by the gift, grant or payee thereof and (4) revenues generated by Special Facilities (as defined in the General Indenture) (the *"Available Funds"*); and

WHEREAS, BofA Securities, Inc., Goldman Sachs & Co. LLC and Loop Capital Markets 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

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:

1. the General Indenture;

2. the 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 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 Bonds in compliance with Section 116D-23 of the Act;

NOW, THEREFORE, BE IT RESOLVED by the Board as follows:

Section 1. ***Authorization of Bonds.*** That the Board hereby authorizes the issuance of the Bonds under the General Indenture and the Series Indenture as follows:

(1) in an aggregate principal amount not to exceed $113,750,000 to pay the costs of refunding the 2009B Bonds and the costs of issuance of the Bonds related thereto;

(2) in an aggregate principal amount not to exceed $36,000,000 to pay the costs of refunding the Commercial Paper Bonds and the costs of issuance of the Bonds related thereto; and

(3) in an aggregate principal amount not to exceed $28,750,000 to pay the costs of the 2020 Bond Projects and the costs of issuance of the Bonds related thereto.

The maximum principal amount of Bonds to be issued related to the refunding of the Commercial Paper Bonds and financing of the 2020 Bond Projects may also include an additional 5% of the amounts specified above to pay additional issuance expenses and other related costs. The Bonds may be issued in one or more series of bonds in any combination of tax-exempt and taxable bonds for any or all of the purposes set forth herein, as the Senior Vice President for Finance and Administration and CFO of the UNC System (the *"SVP-Finance"*), or her designee, in consultation with the appropriate officers at UNC-Chapel Hill, determine to be in UNC-Chapel Hill's best interest to achieve the goals set forth herein.

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 and to provide for the maintenance and operation of the facilities at UNC-Chapel Hill to the extent required under the General Indenture.

Section 3. ***Selection of Financing Team Members.*** That the Board authorizes the SVP-Finance and the Vice Chancellor for Finance and Operations of UNC-Chapel Hill to select any professionals necessary to undertake the financing as contemplated in this Resolution.

Section 4. ***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 UNC System, the SVP-Finance, the Secretary and the Assistant Secretary of the Board and the Secretary of the UNC System, or anyone acting in an interim capacity, individually and collectively (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 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 5. ***Authorization of Purchase Agreement.*** That the Chairman of the Board, the President of the UNC System and the SVP-Finance, individually or collectively, be and they hereby are each authorized, empowered and directed to execute and deliver the Purchase Agreement for and on behalf of the Board, including necessary counterparts, in a form and substance consistent with the terms of this Resolution and that from and after the execution and delivery of the Purchase Agreement, 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 the Purchase Agreement as executed.

Section 6. ***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 President of the UNC System and the SVP-Finance, or their respective designees, individually or collectively, be and they hereby are each 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 Preliminary Official Statement and the Official Statement by the Underwriters in connection with the sale of the Bonds to investors is hereby authorized, approved and confirmed.

Section 7. ***Commercial Paper Bond and other Available Funds for the 2020 Bond Projects.*** If it is determined not to issue the Bonds to complete any or all of the 2020 Bond Projects, the Board hereby (a) approves and ratifies the use of the proceeds from the issuance of new Commercial Paper Bonds and the use of other Available Funds, or any combination thereof, in order to finance and pay the costs of the 2020 Bond Projects and (b) finds that sufficient Available Funds are available to pay the principal of and interest on the Commercial Paper Bonds for the 2020 Bond Projects, if issued, and to provide for the maintenance and operation of the facilities at UNC-Chapel Hill to the extent required under the General Indenture.

Section 8. ***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, and otherwise contemplated by this Resolution. Any provision in this Resolution that authorizes more than one Authorized Officer to take certain actions shall be read to permit such Authorized Officers to take the authorized actions either individually or collectively. The Chancellor and the Vice Chancellor for Finance and Operations at UNC-Chapel Hill, or their respective designees, individually or collectively, are hereby authorized to execute and deliver all documents and take such actions as may be necessary to the issuance and on-going administration of the Bonds, and otherwise contemplated by this Resolution on behalf of UNC-Chapel Hill.

Section 9. ***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 10. ***Effective Date.*** This Resolution is effective immediately on the date of its adoption.

PASSED, ADOPTED, AND APPROVED this 27th day of May, 2021.

STATE OF NORTH CAROLINA
COUNTY OF ORANGE

I, Meredith McCullen, Secretary of the University of North Carolina System, DO HEREBY CERTIFY that (1) the foregoing is a full, true and correct copy of the approving resolution adopted by the Board of Governors of the University of North Carolina System at its meeting on May 27, 2021, and appearing in the minutes of such meeting, (2) notice of the meeting of the Board of Governors of the University of North Carolina System held on May 27, 2021 was sent to each member of the Board, and (3) a quorum was present at the meeting on May 27, 2021, at which time the foregoing Resolution was adopted.

WITNESS, my hand and the seal of the University of North Carolina System this ____ day of May, 2021

[SEAL]

_____

Meredith McCullen, Secretary of the University of North Carolina System