

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.

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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.

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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

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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;

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(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

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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.

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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