Policy on Debt Management

I. Pursuant to its authority under G.S. 116D-21 et seq., 116-198.31 et seq., 116-175 et seq., 116-187 et seq.[1], and other North Carolina law, and consistent with Appendix 1 of *The Code* and Section 600.2.4 of the UNC Policy Manual, *Custody and Management of Institutional Trust Funds and Special Funds of Individual Institutions,* the Board of Governors (the "Board") adopts the following policy regarding the approval and issuance of special obligation bonds, revenue bonds, and other debt for the purpose of financing or refinancing approved real property and capital improvement projects.

II. Special Obligation Bonds. G.S. 116D-26 provides the Board with authority to issue special obligation bonds to pay all or any part of the cost of acquiring, constructing, or providing a special obligation, or self-liquidating, project. Self-liquidating projects are non-appropriated capital projects financed by the university and include the construction, repair, renovation or acquisition of facilities such as residence halls, dining facilities, research buildings, athletic facilities, and student health buildings. Special obligation bonds are secured by and payable from the obligated resources identified at the approval of debt authorization and at the time of bond issuance. Special obligation bonds shall not be issued until the effective date of legislation enacted by the General Assembly.

III. Revenue Bonds for Projects at Centennial Campus, on the Horace Williams Campus, or on a Millennial Campus. G.S. 116-198.34(2) and G.S. 116-198.35 provide the Board authority to issue revenue bonds to pay all or any part of the cost of any project or projects on the Centennial Campus, on the Horace Williams Campus, or on a Millennial Campus. Revenue bonds are payable from rents, leases, charges, fees, and other income revenues derived from the project or projects and existing facilities. Subject to approval of the director of budget, the Board may approve a constituent institution's request to issue revenue bonds. Requests for approval shall be submitted to the president or his designee in a manner prescribed by the president.

IV. Approvals.

A. Approval of Issuing Bonds. The Board has authority to issue bonds to pay all or any part of the cost of any project or projects, and to fund or refund any project or projects with a term as provided under state law. The maximum term of a special obligation bond issuance shall not exceed 30 years. The maximum term of a revenue bond for the Centennial Campus, the Horace Williams Campus, or on a Millennial Campus project shall not exceed 40 years. The final maturity of refunding bonds shall not exceed the original maturity of the refunded bond unless otherwise authorized by the Board or state law, as applicable. Constituent institutions' request for Board approval to issue bonds or other debt to pay for any project or to fund the acquisition of real property shall be submitted first to the president or his designee in a manner prescribed by the president.

[1] Special obligation bonds are generally issued pursuant to G.S. 116D-21. The statutory authority provided under G.S. 116-187 still exists but is rarely used.

B. Approval of Special Obligation Bonds for Self-liquidating Projects. The Board must submit information on proposed special obligation projects to the General Assembly for approval, including the need for each project, project costs, estimated operating costs, estimated debt service requirements, and sources and amounts of obligated resources pledged for repayment. The Board shall not issue special obligations bonds until the effective date of legislation enacted by the General Assembly. Constituent institutions may conduct advance planning for projects appropriately authorized by the boards of trustees. Constituent institutions may also conduct other preliminary nonbinding actions related to researching project feasibility and debt issuance related to the project, provided that the constituent institution does not proceed with formally engaging rating agencies, soliciting requests for proposals, or otherwise announcing or advancing work prior to legislative authorization. All projects must comply with the authorization and other applicable provisions of Section 600.1.1 of the UNC Policy Manual, *Policy on Design, Construction, and Financing of Capital Improvement Projects*, and Section 600.1.3 of the UNC Policy Manual, *Policy on Authority for Real Property Transactions*.

C. Authorization of Special Obligation Bonds for Self-Liquidating Projects. After the enactment of legislation and subject to approval of the director of the budget, the Board may issue special obligation bonds. Per G.S. 116D-26, the proceeds of special obligation bonds secured from the operation of, or activities at, one institution may not be applied to finance a special obligation project located at another institution. The Board reserves the right to include a timeline for closing the bond.

D. Approval and Authorization of Revenue Bonds for Projects at Centennial Campus, on the Horace Williams Campus, or on a Millennial Campus. Subject to approval of the director of budget, the Board may issue revenue bonds for acquiring, constructing, or providing for projects on the Centennial Campus, the Horace Williams Campus or on a Millennial Campus. The Board must approve the project, the amount, the sources or proceeds for repayment, and other material terms. Constituent institutions may conduct advance planning for projects appropriately authorized by the boards of trustees. Constituent institutions may also conduct other preliminary nonbinding actions related to researching project feasibility and debt issuance related to the project, provided that the constituent institution does not proceed with formally engaging rating agencies, soliciting requests for proposals, or otherwise announcing or advancing work prior to Board approval and authorization. All projects must comply with the authorization and other applicable provisions of Sections 600.1.1 and 600.1.3 of the UNC Policy Manual.

E. Reimbursement Approval. The Board authorizes the president or his designee to execute resolutions related to reimbursement of capital expenditures in anticipation of issuances of tax-exempt debt obligations. This resolution shall serve as a declaration of an official intent of the Board under Section 1.150-2 of the Treasury Regulations promulgated under Section 103 of the Internal Revenue Code of 1986, as amended.

1. Reimbursement resolutions for debt to support self-liquidating projects cannot be executed prior to the enactment of legislation. Reimbursement resolutions for debt supporting projects on the Centennial Campus, Horace Williams Campus, or a Millennial Campus cannot be executed prior to Board approval and authorization.

2. Constituent institutions may be reimbursed for allowable capital expenditures consistent with applicable Treasury regulations for authorized capital costs incurred for approved projects that are paid by the constituent institution.

3. The maximum principal amount of reimbursement shall not exceed the debt authorization for the project.

F. Student and Indebtedness Fee Approval and Expiration. Projects to be funded in whole or in part through identified student fees, including but not limited to indebtedness fees, must be approved by the Board as required under Section 1000.1.2 of the UNC Policy Manual, *Policy on Student Fees*. Indebtedness fees shall only be used to fund the authorized project. Indebtedness fees may not include components for operations and maintenance but shall reflect the cost of servicing the debt for the authorized project at the coverage levels required in Board resolutions and other documents authorizing the debt. Any subsequent changes in fees or the intended use of the fees require Board approval. Indebtedness fees expire in the next academic year after the principal of the related debt is retired unless otherwise authorized by the Board. If a debt is refinanced and it results in substantial debt service savings, constituent institutions should reduce the applicable student indebtedness fee proportionately or discontinue the student indebtedness fee early to the extent practicable.

V. Expiration of Self-Liquidating Authority. The Board's initial authorization to issue debt shall expire five (5) years after the date of legislative approval if no debt has been issued pursuant to that authorization. Board authorization to issue revenue bonds for Millennial Campus projects shall expire five (5) years after the date of Board approval if no debt has been issued pursuant to that authorization. In cases where only a portion of the debt authorized has been issued, the authorization for the unused debt authorization shall expire three (3) years after the last debt issuance. Projects financed with commercial paper have a total of eight (8) years to complete permanent financing. The president or his designee may approve an extension upon the request from the constituent institution demonstrating continuing project viability and need.

VI. Selection of Bond Counsel. Subject to applicable provisions of Section 200.5 of the UNC Policy Manual, *Policy on Legal Affairs; Initiating and Settling Potential and Pending Litigation*, and Section 200.5[R] of the UNC Policy Manual, *Regulation on Engagement of Private Counsel and Designation of Litigation Counsel,* as a prerequisite to the designation as bond counsel, a law firm must (a) certify to the constituent institution that it is not engaged in the representation of any party who is, or who has given notice of its intention to become, a party to any lawsuit against or adverse to the University, a constituent institution of the University, or an employee of the University, or (b) seek a written waiver from the constituent institution, or the UNC System Office, as appropriate. This obligation shall continue for the duration of the representation.

VII. Compliance and Reporting.

A. Certification. Constituent institutions shall provide a compliance certification to the UNC System Office annually certifying its compliance with all bond restrictions, including, without limitation, certain provisions of the Internal Revenue Code of 1986 relating to the "private use" of the facilities financed with the proceeds of certain bonds and any applicable state guidelines and procedures concerning post-issuance compliance for monitoring and managing private activities

bond compliance. The president or his designee shall have the authority to establish the procedures and reporting requirements.

B. Debt Capacity Management. G.S. 116D-33 requires the Board to annually review and report on the debt affordability for each constituent institution and to report its findings and recommendations to the Office of State Budget and Management, the Joint Legislative Commission on Governmental Operations, and the State Treasurer. The president or his designee shall have the authority to establish the procedures and requirements for the debt affordability study.

C. Other Reporting. If other statutory or regulatory reporting is enacted or required, the president or his designee shall have the authority to establish the procedures and reporting requirements.

VIII. Other Matters.

A. Effective Date. The requirements of this policy shall be effective on the date of adoption by the Board of Governors.

B. Relation to State Laws. The foregoing policies, as adopted by the Board of Governors, are meant to supplement, and do not purport to supplant or modify, those statutory enactments which may relate to the subject matter of this policy.

C. Regulations. This policy shall be implemented and applied in accordance with such regulations as may be adopted from time to time by the president.