NOTE 8: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2023, was as follows (dollars in thousands):

	Balance July 1, 2022 (as restated)	Increases	Decreases	Balance June 30, 2023	Due Within One Year
Governmental Activities					
Bonds and similar debt payable:					
General obligation bonds	$ 2,309,790	$ -	$ (333,850)	$ 1,975,940	$ 310,880
Special indebtedness:					
Limited obligation bonds	2,348,890	-	(227,400)	2,121,490	233,700
GARVEE bonds	1,023,210	-	(104,270)	918,940	73,225
Issuance premium	628,794	-	(107,173)	521,621	-
Total bonds and similar debt payable	6,310,684	-	(772,693)	5,537,991	617,805
Notes from direct borrowings	43,945	-	(6,294)	37,651	5,823
Lease liability	403,868	31,729	(62,889)	372,708	36,223
Subscription liability	187,821	117,262	(79,377)	225,706	75,458
Compensated absences	585,998	344,892	(337,572)	593,318	46,321
Pension liability (Note 12)	1,485,910	2,297,337	(20,219)	3,763,028	22,789
Net OPEB liability (Note 14)	6,309,947	5,572	(1,643,296)	4,672,223	-
Workers' compensation	650,770	88,117	(121,642)	617,245	118,873
Death benefit payable	37	-	-	37	-
Pollution remediation payable	7,328	-	(346)	6,982	349
Claims and judgments payable	731,703	-	-	731,703	-
Governmental activity long-term liabilities	$ 16,718,011	$ 2,884,909	$ (3,044,328)	$ 16,558,592	$ 923,641
Business-type Activities					
Bonds payable:					
Revenue bonds	$ 2,323,816	$ -	$ (536,454)	$ 1,787,362	$ 42,002
Issuance premium	155,435	-	(25,258)	130,177	-
Total bonds payable	2,479,251	-	(561,712)	1,917,539	42,002
Notes from direct borrowings	186,127	499,462	(1,064)	684,525	1,421
Lease liability	8,228	165	(1,681)	6,712	1,562
Subscription liability	-	3,395	(754)	2,641	793
Annuity and life income payable	81,016	3,794	(10,625)	74,185	7,671
Compensated absences	12,460	10,877	(10,405)	12,932	1,964
Net pension liability (Note 12)	16,421	35,343	-	51,764	-
Net OPEB liability (Note 14)	87,666	516	(14,322)	73,860	-
Workers' compensation	45	27	(13)	59	26
Business-type activity long-term liabilities	$ 2,871,214	$ 553,579	$ (600,576)	$ 2,824,217	$ 55,439

For governmental activities, the compensated absences, pension liability, net OPEB liability, and workers' compensation liabilities are generally liquidated by the General Fund. Pollution remediation payable is generally liquidated by the Highway Fund. A portion of compensated absences, the pension liability, the net OPEB liability, and workers' compensation liabilities is also liquidated by the Highway Fund. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, the following long-term liabilities of internal service funds were included in the above amounts: compensated absences of $19.617 million, net pension liability of $77.718 million, net OPEB liability of $110.460 million, workers' compensation liability of $2.004 million, lease liability of $1.23 million, and subscription liability of $57.549 million. The claims and judgments liability of $731.7 million is paid from State appropriations as approved by the N.C. General Assembly. Funds were not appropriated in the current fiscal year nor the next fiscal year.

Governmental Activities

The Master Trust Indenture of the State's outstanding limited obligation bonds of $2.121 billion contain a provision that in an event of default, all outstanding limited obligation bond amounts may become immediately due if the State fails to pay any outstanding limited obligation bond amount by its due date, or if the State fails to budget and appropriate moneys sufficient to make payment on such bonds coming due in any fiscal year.

The outstanding notes from direct borrowings of $32.202 million contain provisions that in the event of default, (1) outstanding amounts become immediately due and payable, (2) the project can be sold and the proceeds applied to outstanding amounts due, (3) the custodian could be directed to apply all acquisition fund amounts to the outstanding amounts due, or (4) proceed by appropriate court action to enforce performance of the applicable covenants in the agreement.

Business-type Activities

The outstanding notes from direct borrowings of $665.962 million contain provisions that in the event of default, the lender may terminate its obligations to disburse any remaining undisbursed loan proceeds immediately.

The occupational licensing boards have pledged buildings and land as collateral for its outstanding notes from direct borrowings of $9.380 million.

Component Unit (University of North Carolina System). Long-term liability activity for the year ended June 30, 2023, was as follows (dollars in thousands):

	Balance July 1, 2022 (as restated)	Increases	Decreases	Balance June 30, 2023	Due Within One Year
University of North Carolina System					
Bonds payable:					
Revenue bonds	$ 4,449,873	$ 20,455	$ (154,814)	$ 4,315,514	$ 163,504
Direct placements	200,679	-	(21,418)	179,261	80,542
Certificates of participation	3,172	-	(357)	2,815	368
Limited obligation bonds	217,480	5,695	(48,725)	174,450	8,875
Issuance premium	292,143	3,764	(17,152)	278,755	-
Issuance discount	(3,472)	-	763	(2,709)	-
Total bonds payable	5,159,875	29,914	(241,703)	4,948,086	253,289
Notes from direct borrowings	334,717	3,533	(27,430)	310,820	38,259
Lease liability	615,383	121,646	(157,869)	579,160	105,494
Subscription liability	188,780	34,762	(54,759)	168,783	69,650
Annuity and life income payable	51,925	3,872	(4,091)	51,706	863
Compensated absences	554,786	530,153	(489,325)	595,614	108,446
Net pension liability (Note 12)	832,158	1,548,966	(30,144)	2,350,980	-
Net OPEB liability (Note 14)	7,905,263	5,468	(1,892,630)	6,018,101	-
Workers' compensation	53,301	8,258	(13,219)	48,340	12,045
Pollution remediation payable	4,208	600	(435)	4,373	433
Asset retirement obligation	15,102	498	-	15,600	-
Liability insurance trust fund payable	26,765	7,713	(4,728)	29,750	7,713
Total long-term liabilities	$ 15,742,263	$ 2,295,383	$ (2,916,333)	$ 15,121,313	$ 596,192

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At year-end, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of $253.481 million, of which $34.888 million was due within one year and $218.593 million was due in more than one year.

The University of North Carolina at Chapel Hill has unused line of credit in the amount of $10 million.

Revenue Bonds

Various universities within the University of North Carolina System (UNC System) have outstanding revenue bonds totaling $2.02 billion that contain provisions that in an event of default, the bonds may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice.

Various universities within the UNC System have outstanding revenue bonds totaling $1.74 billion that contain a provision that in an event of default, the bonds may become immediately due and payable if the University fails to pay any outstanding bond debt service.

The University of North Carolina Hospitals has pledged future revenues as collateral for the revenue bonds payable of $397.465 million, and certain funds held have been reserved as restricted equal to 7.5% of gross patient revenues as stipulated by the bond covenants. As of June 30, 2023, the amount pledged as collateral is $482.515 million. In the event of default, the bonds will become immediately due and payable. At such time, the Board of Governors may require a sum sufficient to pay all matured installments of principal and interest due, be deposited with the Hospitals' Trustee. Additionally, the bonds can be replaced with a replacement indenture. The owners of the outstanding bonds may be required to accept the replacement bonds in lieu of the bonds held by them. Any such replacement may result in a reduction or material alteration in the covenants and other provisions provided to secure payment of the outstanding bonds.

Rex Healthcare has outstanding revenue bonds of $150 million secured by a lien on substantially all of Rex's real and personal property and by a security interest in Rex's unrestricted revenues.

Direct Placement Bonds

Various universities within the UNC System have outstanding direct placement bonds totaling $94.746 million that contain a provision that in an event of default, the bonds may become immediately due and payable if the University fails to pay any outstanding bond debt service.

Various universities within the UNC System have outstanding direct placement bonds totaling $84.515 million that contain a provision that in an event of default, the bonds may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice ($77.351 million) or a period of 60 days after written notice ($7.164 million).

Special Indebtedness

The University of North Carolina at Wilmington has outstanding limited obligation bonds (LOBs) of $97.05 million secured by revenues which include rentals payable by the University under leases and use agreements on the facilities financed and refinanced with the LOBs. The LOBs are further secured by a deed of trust on the property financed and refinanced with the LOBs. The LOBs contain provisions that in the event of default, the bonds become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice. Additionally, the bonds become immediately due and payable if an event of default occurs under the leases or use agreements or under the deed of trust. The Trustee may also take property secured under the deed of trust held as security, including foreclosure on the property held as security.

Western Carolina University has outstanding limited obligation bonds of $42.465 million. These bonds are secured by revenues which include rentals payable by the University under leases and use agreements on the funded project. The LOBs are further secured by a deed of trust on the property. The LOBs contain provisions that in the event of default, the bonds become immediately due and payable.

The University of North Carolina at Pembroke has outstanding limited obligation bonds of $20.89 million. These bonds are secured by revenues which include rentals payable by the University under leases and use agreements on the funded project. The LOBs are further secured by a deed of trust on the property. The LOBs contain provisions that in the event of default, the bonds become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice.

Fayetteville State University has outstanding limited obligation bonds totaling $14.045 million and the University of North Carolina School of the Arts has outstanding certificates of participation totaling $2.815 million that contain a provision that in an event of default, the bonds may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice. The University of North Carolina School of the Arts has pledged an apartment complex as collateral for its outstanding certificates of participation of $2.815 million.

Notes from Direct Borrowings

Various universities within the UNC System have outstanding notes from direct borrowings totaling $79.902 million that contain a provision that in an event of default, the notes may become immediately due and payable if the University fails to pay any outstanding debt service.

The UNC System has pledged the energy savings improvements installed in its buildings and other structures as collateral for Guaranteed Energy Savings Installment Financing Agreements in relation to the outstanding notes from direct borrowings of $76.085 million. These agreements contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, (3) insurance coverage on the asset is not maintained, or (4) the University fails to perform any warranty, covenant, condition, or agreement within 30 days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within 30 days. Upon the occurrence of any event of default, the lender may declare the outstanding amount due and payable immediately. The lender may also exercise all remedies available by law or in the equity provided under the agreement, including sale of the secured assets, and apply the proceeds of any such sale to the amounts due after deducting all costs and expenses related to the recovery, repair, storage, and sale of the secured assets, including court costs and reasonable attorneys' fees incurred.

Appalachian State University has outstanding notes from direct borrowings of $72.8 million to finance construction of a residence hall and to make site improvements. The University assigned to the financial institution the right, title, and interest in lease and use agreements and upon default, the base rentals, which includes all rental revenue from the facility, and payments received or receivable under these agreements, and a continuing security interest in the base rentals as well as the lease and use agreements after commencement of any proceeding under the bankruptcy code. The financial institution has the right, power, and authority to: (1) settle, compromise, release, extend the time of payment of, and make allowances, adjustments, and discounts of any base rentals or other obligations; (2) enforce payment of base rentals; and (3) enter on, take possession of and operate the residence hall if a default occurs.

Elizabeth City State University has outstanding notes from direct borrowings of $18.987 million that contain: (1) a provision that in an event of default, the direct borrowings may become immediately due if pledged revenues during the year are less than 100 percent of debt service coverage due in the following year and (2) a provision that if the University is unable to make payment, outstanding amounts are due immediately. These notes contain a subjective acceleration clause that allows the lender to accelerate payment of the entire principal amount to become immediately due if the lender determines that a material adverse change occurs. These notes are secured by student housing facilities.

Various universities within the UNC System have outstanding notes from direct borrowings totaling $19.091 million that contain a provision that in an event of default, the notes may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 15 days after written notice ($14.675 million) or a period of 30 days after written notice ($4.416 million). Appalachian State University has pledged land for its outstanding notes from direct borrowings of $14.675 million. The University of North Carolina at Pembroke has pledged machinery and equipment as security for its outstanding notes from direct borrowings of $2.421 million.

Gateway Research Park has outstanding notes from direct borrowings of $17.237 million secured with collateral of real estate and a vehicle.

Rex Healthcare has outstanding notes from direct borrowings of $13.754 million collateralized by certain property of Rex Wakefield Enterprises.

B. Bonds, Special Indebtedness, Direct Placements, and Notes from Direct Borrowings

Bonds, special indebtedness, direct placements and notes from direct borrowings at June 30, 2023 were as follows (dollars in thousands):

	Interest Rates	Maturing Through Fiscal Year	Original Borrowing	Outstanding Balance
Primary Government				
Governmental activities				
General obligation bonds	1.50% - 5.00%	2040	$ 3,071,158	$1,975,940
Special indebtedness:				
Limited obligation bonds	2.00% - 5.00%	2037	2,799,030	2,121,490
GARVEE bonds	2.00% - 5.00%	2036	1,342,165	918,940
Notes from direct borrowings	2.10% - 3.75%	2033	84,451	37,651
Business-type activities				
Revenue bonds**	1.83% - 7.10%	2058	$ 2,732,775	$1,787,362
Notes from direct borrowings	1.83% - 3.29%	2058	690,020	684,525
Component Units				
University of North Carolina System				
Revenue bonds**	0.30% - 6.52%*	2053	$ 5,342,970	$4,315,514
Direct Placements	1.29% - 6.18%*	2051	254,347	179,261
Certificates of participation	2.00% - 2.00%	2030	5,400	2,815
Limited obligation bonds	2.00% - 6.23%	2043	214,260	174,450
Notes from direct borrowings**	0.00% - 7.50%*	2057	454,407	310,820

* For variable rate debt, interest rates in effect at June 30, 2023 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

** The issuer has elected to treat a portion of these obligations as federally taxable "Build America Bonds" for purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury for a specified percentage of the interest payable on these obligations. The outstanding balance of "Build America Bonds" was $216.93 million for the primary government and $30.96 million for component units. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

General obligation bonds are secured by the full faith, credit, and taxing power of the State. The payments on special indebtedness, which include certificates of participation (COPs) and limited obligation bonds, are subject to appropriation by the N.C. General Assembly. Special indebtedness may also be secured by a lien on equipment or facilities, or by lease payments made by the State. Other long-term debts of the State and its component units are payable solely from certain resources of the funds to which they relate.

C. Debt Authorized but Unissued

At June 30, 2023, the State had no authorized but unissued general obligation bonds. At June 30, 2023, the State had no authorized but unissued special indebtedness supported by the General Fund. At June 30, 2023, the State had $1.7 billion in authorized but unissued special indebtedness supported by the Highway Trust Fund.

In 2005, the N.C. General Assembly enacted General Statute 136-18(12b) providing for the issuance of Grant Anticipation Revenue Vehicle Bonds (GARVEEs), which are payable from revenues consisting primarily of federal transportation funds, with the proceeds to finance federal-aid highway projects. The GARVEEs are limited obligations of the State payable solely from these funding sources. The total amount of GARVEEs that may be issued is subject to limitations contained in the authorizing legislation tied to the historic and future level of federal transportation funds the State has or is expected to receive.

General Statute 143-64.17 as amended allows state agencies and universities to utilize Guaranteed Energy Savings Contracts to implement and finance major facility upgrades which save energy and reduce utility expenditures. The State and universities currently are authorized to finance up to $500 million for such projects that provide energy cost savings that are sufficient to pay the debt service on the projects' financing. At June 30, 2023, a total of $271.3 million of such contracts have been entered into by the State and universities.

D. Demand Bonds

Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the issuer’s remarketing or paying agents.

<u>Component Unit</u>

University of North Carolina System

The University of North Carolina at Chapel Hill

With regard to the following direct placement demand bonds, the issuer has not entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

General Revenue Bonds, Series 2012D

On December 14, 2012, the University issued a direct placement bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D" (the "2012D Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase 2 - Carolina Student Athlete Center for Excellence".

Interest will be payable on the 2012D Bond on the maturity date or, if sooner, the prepayment date of the 2012D Bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2012D Bond, together with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2012D Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”). Payments of principal and interest on the 2012D Bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal and interest on the 2012D Bond made directly by the University to the Owner of the 2012D Bond will be credited against The Board of Governors of the University of North Carolina’s (the “Board”) obligation to cause payments to be made with respect to the 2012D Bond to the Debt Service Fund under the General Indenture.

The 2012D Bond may be tendered by the Owner of the 2012D Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee. The 2012D Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the Owner and the Trustee. When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of Commercial Paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2012D Bond outstanding from time to time will bear interest at the Adjusted SOFR Rate. “Adjusted SOFR Rate" means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) 30-Day Average SOFR Rate published by the New York Federal Reserve (calculated and published in arrears and applied forward) plus (2) the spread adjustment of 11 basis points (0.11%) and (3) 1% per annum, which shall be adjusted monthly on the first day of each LIBOR SOFR interest period; provided, however, for any particular SOFR interest period, the Adjusted SOFR Rate will not be less than 1.4% per annum. As of June 30, 2023, no accrued interest payable remained for the 2012D direct placement bond.

With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements. On June 1, 2015, the terms of the 2012D Bond were modified, changing the principal amount to $30 million and extending the maturity to June 1, 2042. All other terms remained the same.

General Revenue Bonds, Series 2021A

On March 24, 2021, the University issued a direct placement bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Indoor Practice Facility and Fetzer Field), Series 2021A" (the "2021A Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to the Indoor Practice Facility and Fetzer Field on the University's campus.

Interest will be payable on the 2021A Bond on each July 1st, commencing July 1, 2021, and on the prepayment date of the 2021A Bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2021A Bond, together with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2021A Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). Payments of principal and interest on the 2021A Bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal of and interest on the 2021A Bond made directly by the University to the Owner of the 2021A Bond will be credited against The Board of Governors of the University of North Carolina's (the "Board") obligation to cause payments to be made with respect to the 2021A Bond to the Debt Service Fund under the General Indenture.

The 2021A Bond may be tendered by the Owner of the 2021A Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee. The 2021A Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the Owner and the Trustee. When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of Commercial Paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2021A Bond outstanding from time to time will bear interest at the Adjusted SOFR Rate. "Adjusted SOFR Rate" means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) 30-Day Average SOFR Rate published by the New York Federal Reserve (calculated and published in arrears and applied forward) plus (2) the spread adjustment of 11 basis points (0.11%) and (3) 1% per annum, which shall be adjusted monthly on the first day of each LIBOR SOFR interest period; provided, however, for any particular SOFR interest period, the Adjusted SOFR Rate will not be less than 1.4% per annum. As of June 30, 2022, no accrued interest payable remained for the 2021A direct placement bond.

With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements.

The University of North Carolina Hospitals

With regards to the following demand bonds, the Hospitals have entered into take-out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

Revenue Bonds, Series 2001A and Series 2001B

On January 31, 2001, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $55 million (2001A) and $55 million (2001B) that have a final maturity date of February 15, 2031. The bonds are subject to mandatory sinking fund redemption that began on February 15, 2002. A portion of the proceeds was used to reimburse the Hospitals for $75 million spent allowing the UNC Health Care System to acquire controlling interest in Rex Healthcare, Inc. The remaining proceeds were used for the renovation of space vacated after the opening of the North Carolina Women's Hospital, North Carolina Children's Hospital, and associated support services. While initially bearing interest in a daily mode, the mode on these bonds may change to a weekly rate, a unit pricing rate, a term rate or a fixed rate.

On September 11, 2020, the Hospitals exercised its prerogative under Section 9.4 of the Series Indenture to remove Wells Fargo Bank, N.A., as the remarketing agent for both series. On that date, TD Securities (USA) LLC agreed to act as the exclusive agent in connection with the remarketing and sale of both series. While in daily mode, the bonds are subject to purchase on any business day upon demand by telephonic notice of tender to the Remarketing Agent on the purchase date and delivery to the bond Tender Agent, U.S. Bank, N.A. The Hospitals' Remarketing Agent, TD Securities (USA) LLC has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears, on the first business day of each February, May, August, and November, commencing November 1, 2020, and is equal to 0.05% of the outstanding principal amount of the bonds assigned to each agent.

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between the Hospitals and TD Bank, N.A., a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each February, May, August, and November, thereafter until the expiration date or the termination date of the Agreements. On September 11, 2020, UNC Hospitals entered into a new multiple year agreement with TD Bank, N.A. to provide liquidity service at a fee of 0.32%, effective September 11, 2020. The applicable percentage will be determined based upon the long-term ratings of the Bonds (without regard to any credit enhancement) as follows:

S&P	Moody's	Commitment Rate
A+	A1	0.32%
A	A2	0.57%
A-	A3	0.89%

In the event that there is a disparity between Moody's and S&P's ratings on the bonds, the lower rating will prevail for the purpose of calculating the Commitment Fee. In addition, should any Event of Default occur or the long-term unenhanced ratings on the bonds or any Parity Debt be withdrawn or suspended by one or more of the rating agencies for credit-related reasons, the Fee Rate shall automatically increase to 1.50% per annum. All such increases in the Commitment Rate contemplated above will be adjusted at the beginning of the quarter following the rate change.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Base Rate (equal to the greater of the Prime Rate, the Federal Funds Rate plus 0.5% or 3%) until 180 days after the initial purchase date and thereafter bear interest at the Base Rate plus 1% per annum and thereafter. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. As of June 30, 2023, there were no Bank Bonds held by the 2001 Liquidity Facility.

Included in the Agreements is a take-out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 365 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Agreements allow the Hospitals to redeem Bank Bonds in monthly installments of principal beginning on the first business day of the month until the fourth anniversary of the purchase date, until fully paid. If the take-out agreement were to be exercised because the entire outstanding $75.6 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $24.65 million, $23.28 million, $21.56 million, and $19.83 million in years one, two, three, and four, respectively, following the termination date under the installment loan agreement assuming a Base Rate of 8.25% (Prime Rate) for the first 180 days and a rate of 9.25% (Base Rate plus 1.00%) thereafter. The expiration date of the Agreements is September 10, 2027.

Revenue Refunding Bonds, Series 2003A and Series 2003B

On February 13, 2003, Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $63.77 million (2003A) and $34.25 million (2003B) that have a final maturity date of February 1, 2029. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2004. The proceeds were used to advance refund $88.33 million of the Series 1996 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate, or a fixed rate.

On July 24, 2020, Hospitals entered into a Standby Bond Purchase Agreement with TD Bank, N.A. replacing Wells Fargo Bank, N.A. Also, on July 24, 2020, the Hospitals exercised its prerogative under Section 9.4 of the Series Indenture and signed a new remarketing agent agreement with TD Securities (USA) LLC (Series 2003B) removing Wells Fargo Bank, N.A. as remarketing agent.

While in the weekly mode, the bonds are subject to purchase on demand with seven days' notice to the Remarketing Agent and delivery to the bond Tender Agent, U.S. Bank, National Association. Hospitals' Remarketing Agents, Bank of America Securities, LLC (Series 2003A) and TD Securities (USA) LLC (Series 2003B), have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.08% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003A and is equal to 0.05% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003B. Bank of America Securities, LLC agreed to reduce their remarketing fee to 0.05% effective June 16, 2021 for the Series 2003A.

Under separate Standby Bond Purchase Agreements for the Series 2003A and Series 2003B (Agreements) between Hospitals, Bank of America, N.A. (Series 2003A) and TD Securities (USA) LLC (Series 2003B), Liquidity Facilities have been established for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available.

The 2003A Agreement with Bank of America, N.A. required a Commitment Fee of 0.31% for fiscal year 2023. Payments are made quarterly in arrears, on the first business day of each November, February, May, and August thereafter until the expiration date or termination date of the Agreement. The Commitment Rate remains in effect over the life of the Agreement so long as the rating assigned to Parity Debt by Moody's and S&P is A1/A+ or higher. If the rating assigned to Parity Debt by either Moody's or S&P is downgraded below A1 or A+, respectively, the Commitment Rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

S&P	Moody's	Commitment Rate
A	A2	0.51%
A- or lower	A3 or lower	0.71%

Provided, however, that the Commitment Rate shall be increased (A) by 150 basis points (1.5%) upon the occurrence and during the continuance of an Event of Default, and (B) by 150 basis points (1.5%) if either Moody's or S&P withdraws or suspends its rating for any reason (other than for the payment in full or defeasance of the Bonds). Any such increase in the Commitment Rate shall take effect as of the date of any such event described in the preceding sentence. All such increases in the Commitment Rate contemplated above shall be cumulative.

Under the 2003A Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate (equal to the greater of the Prime Rate plus 1.5% or the Federal Funds Rate plus 3%), the Base Rate, for the first 90 days and then the Base Rate plus 0.5% from the 91st day to the 367th day following the date of purchase and the Base Rate plus 1% from the 368th day following such date of purchase and thereafter subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. As of June 30, 2023, there were no Bank Bonds held by the 2003A Liquidity Facility.

Included in the 2003A Agreement is a take-out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 367 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A Agreement allows Hospitals to redeem Bank Bonds in six consecutive, equal semi-annual installments of principal beginning on the first business day of the month that occurs at least five and not more than six months following the termination date, until fully paid. In any event, all principal and accrued and unpaid interest shall be due and payable on the date the sixth installment is due. If the take-out agreement were to be exercised because the entire outstanding $29.36 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $12.51 million, $11.63 million, and $10.57 million in years one, two and three respectively, following the termination date under the installment loan agreement assuming a Base Rate of 9.75% (Prime plus 1.50%). The current expiration date of the Agreement is July 2, 2024.

The 2003B Agreement with TD Bank, N.A. required a Commitment Fee of 0.32% for fiscal year 2023. Payments are to be made quarterly in arrears, on the first business day of each February, May, August, and November, commencing August 3, 2020. The Commitment Rate remains in effect over the life of the Agreement, so long as the rating assigned to Parity Debt by Moody's and S&P is A+/A1 or higher. If the rating assigned to Parity Debt by either Moody's or S&P is downgraded below A+ or A1, respectively, the Commitment Rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

S&P	Moody's	Commitment Rate
A1 or higher	A+	0.32%
A2	A	0.57%
A3	A-	0.89%

In the event that there is a disparity between Moody's and S&P's ratings on the Bonds, the lower rating will prevail for the purpose of calculating the Commitment Fee. In addition, should any Event of Default occur on the long-term unenhanced ratings on the bonds or any Parity Debt be withdrawn or suspended by one or more of the rating agencies for credit-related reasons, the Fee Rate shall automatically increase to 1.5% per annum. All such increases in the Commitment Rate contemplated above will be adjusted at the beginning of the quarter following the rate change.

Under the 2003B Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Base Rate (equal to the greater of the Prime Rate, the Federal Funds Rate plus 0.5%, or 3%), until 180 days after the initial date of purchase, and thereafter at the Base Rate plus 1% per annum. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. As of June 30, 2023, there were no Bank Bonds held by the 2003B Liquidity Facility.

Included in the 2003B Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 365 days of the "put" date. In this situation, Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003B Agreement allows Hospitals to redeem Bank Bonds in monthly installments of principal beginning on the first business day of the month until the fourth anniversary of the purchase date, until fully paid. If the take out agreement were to be exercised because the entire outstanding $15.79 million of demand bonds was "put" and not resold, Hospitals would be required to pay $5.15 million, $4.86 million, $4.50 million, and $4.14 million in years one, two, three, and four, respectively, following the termination date under the installment loan agreement assuming a Base Rate of 8.25% (Prime Rate) for the first 180 days and a rate of 9.25% (Base Rate plus 1.00%) thereafter. The expiration date of the agreement is July 8, 2027.

E. Debt Service Requirements

The following schedules show the debt service requirements for the primary government (governmental activities and business-type activities) and component unit (University of North Carolina System). The debt service requirements of variable rate debt are based on rates as of June 30, 2023 and assume that current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Annual debt service requirements to maturity for general obligation bonds, special indebtedness, GARVEE bonds, revenue bonds, direct placements and notes from direct borrowings are as follows (dollars in thousands).

Primary Government

	Governmental Activities			
	General Obligation Bonds		Limited Obligation Bonds	
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest
2024	$ 310,880	$ 80,742	$ 233,700	$ 97,789
2025	232,420	65,198	208,845	86,251
2026	173,320	53,577	205,145	76,010
2027	156,620	44,911	205,710	66,136
2028	129,230	37,311	208,460	55,850
2029-2033	500,340	109,828	806,525	147,101
2034-2038	403,130	39,350	253,105	18,380
2039-2043	70,000	2,025	-	-
Total	$ 1,975,940	$ 432,942	$ 2,121,490	$ 547,517

	Governmental Activities			
	GARVEE Bonds		Notes from Direct Borrowings	
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest
2024	$ 73,225	$ 44,860	$ 5,823	$ 874
2025	76,885	41,198	6,111	717
2026	80,730	37,354	6,262	553
2027	84,775	33,318	4,577	384
2028	89,010	29,079	3,667	284
2029-2033	395,710	79,856	11,211	599
2034-2038	118,605	6,589	-	-
Total	$ 918,940	$ 272,254	$ 37,651	$ 3,411

	Business-type Activities			
	Revenue Bonds		Notes from Direct Borrowings	
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest
2024	$ 42,002	$ 74,227	$ 1,421	$ 5,356
2025	44,361	72,456	1,960	6,173
2026	47,579	70,556	2,371	8,538
2027	51,723	68,729	2,260	10,887
2028	55,580	66,560	2,441	12,465
2029-2033	312,398	328,146	22,654	77,031
2034-2038	361,691	370,778	25,528	74,609
2039-2043	372,394	195,924	105,311	74,631
2044-2048	263,884	154,276	234,561	63,442
2049-2053	170,260	47,980	180,245	34,909
2054-2058	65,490	3,701	105,773	12,840
Total	$ 1,787,362	$ 1,453,333	$ 684,525	$ 380,881

Component Unit

University of North Carolina System

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Direct Placements Principal	Direct Placements Interest	Certificates of Participation Principal	Certificates of Participation Interest
2024	$ 154,133	$ 161,575	$ 20,542	$ 6,265	$ 368	$ 56
2025	159,327	155,739	17,529	5,870	378	49
2026	166,934	149,938	17,207	5,512	390	41
2027	171,226	144,108	13,442	5,169	401	34
2028	176,219	138,073	12,072	4,901	413	26
2029-2033	1,005,370	590,178	29,061	21,555	865	26
2034-2038	1,048,335	380,624	8,598	19,094	-	-
2039-2043	850,195	212,458	30,810	16,540	-	-
2044-2048	469,520	74,269	-	9,265	-	-
2049-2053	114,255	5,547	30,000	4,941	-	-
Total	$ 4,315,514	$ 2,012,509	$ 179,261	$ 99,112	$ 2,815	$ 232

Fiscal Year Ending June 30	Limited Obligation Bonds Principal	Limited Obligation Bonds Interest	Notes from Direct Borrowings Principal	Notes from Direct Borrowings Interest
2024	$ 8,875	$ 7,147	$ 38,259	$ 12,155
2025	9,290	6,722	23,433	11,359
2026	9,700	6,319	22,371	10,461
2027	10,110	5,909	38,201	9,411
2028	10,525	5,488	28,465	8,048
2029-2033	59,100	20,331	97,903	15,890
2034-2038	56,500	8,297	47,462	6,534
2039-2043	10,350	1,048	5,552	1,230
2044-2048	-	-	3,215	892
2049-2053	-	-	3,595	512
2054-2058	-	-	2,364	108
Total	$ 174,450	$ 61,261	$ 310,820	$ 76,600

For revenue bonds and direct placements of the University of North Carolina System, the fiscal year 2023 principal requirements exclude demand bonds classified as current liabilities (see Note 8D).

F. Bond Defeasances

The State and its component units have defeased certain bonds through current and/or advance refundings. New debt proceeds from current refundings may be used to repay the old debt immediately while new debt proceeds from advance refundings are placed into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. Since these bonds are considered to be defeased, the liabilities for these bonds have been removed from the government-wide statement of net position.

Primary Government

Business-type Activities

On January 17, 2023, the North Carolina Turnpike Authority drew $499.46 million against the Transportation Infrastructure Finance and Innovation Act (TIFTA) Loan agreement to defease $499.46 of outstanding North Carolina Turnpike Authority Senior Lien Revenue Bonds, Series 2020. A portion of the proceeds of the loan along with other resources were used to purchase U.S. government securities. The U.S. government securities were deposited in an irrevocable trust to provide for all future debt service on the defeased bonds. As a result, the bonds are considered to be defeased and the liability has been removed from the statement of net position. This defeasance was undertaken to realize approximately $15.5 million in net present value benefit. At June 30, 2023, the outstanding balance of the defeased bonds was $499.46 million.

Component Unit

University of North Carolina System

Significant bond defeasances of the University of North Carolina System are as follows:

Fayetteville State University

On January 13, 2023, Fayetteville State University issued $15.72 million in General Revenue Refunding Bonds, Series 2023, with an average interest rate of 4.99%. The bonds were issued for a current refunding of $19.73 million of outstanding General Revenue Bonds, Series 2013A, with an average interest rate of 5.11%. The refunding was undertaken to reduce total debt service payments by $6.97 million over the next 21 years and resulted in an economic gain of $4.41 million.

Western Carolina University

On June 1, 2023, Western Carolina University issued $5.695 million in Limited Obligation Refunding Bonds, Series 2023, with an average interest rate of 3.47%. The bonds were issued for a current refunding of $5.55 million of outstanding Limited Obligation Bonds, Series 2013, with an average interest rate of 4.24%. The refunding was undertaken to reduce total debt service payments by $215 thousand over the next 10 years and resulted in an economic gain of $187 thousand.

Prior Year Defeasances

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government-wide statement of net position. At June 30, 2023, the primary government had no outstanding balance of prior year defeased bonds. The outstanding balance of prior year defeased bonds was $360.6 million for the University of North Carolina System (component unit). The substitution of essentially risk-free securities with securities that are not essentially risk-free is not prohibited for $151.7 million of the prior year defeased bonds for the University of North Carolina System (component unit).

G. Pollution Remediation Payable

Primary Government

Governmental Activities

The N.C. Department of Transportation (DOT) has several equipment yards across the state with old underground fuel storage tanks. State law requires leaks from tanks to be assessed for remediation. The Department of Environmental Quality (DEQ) assigns a health risk based score to each incident. Incidents with a site score over a set criteria are identified as high priority sites and are required to be remediated. At year-end, DOT had 21 high priority sites. For sites under the set criteria, cleanup is optional. Currently, DOT is not working on low priority sites.

At year-end, the State recognized a pollution remediation liability of $6.979 million for leaking underground fuel tanks at DOT. The liability was measured using the expected cash flow technique. The liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

Component Unit

University of North Carolina System

N.C. State University recognized a pollution remediation liability of $4.343 million for remediation of a lot the University used as a burial site for hazardous chemical and low level radioactive waste generated in its laboratories. The amount of the liability was measured using the expected cash flow technique. The liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

Fayetteville State University recognized a pollution remediation liability of $30 thousand for underground storage tank removal at campus buildings. The amount of the liability was calculated from the estimated costs of the removal.

H. Asset Retirement Obligation

Component Unit

University of North Carolina System

N.C. State University has asset retirement obligations arising from federal regulations to perform certain decommissioning activities at the time of disposal of its PULSTAR reactor facility. These activities include removal of all activated reactor components, demolition of the reactor biological shield, and disposal costs for radioactive materials. The liability was estimated by analyzing the actual decommissioning costs of a representative university reactor facility and adjusting the costs to be consistent with the N.C. State PULSTAR facility. Costs were also adjusted for the effects of inflation. At year-end, the estimated remaining useful life of the PULSTAR reactor facility was 40 years. In accordance with 10 CFR 50.75(e)(1)(iv), the University has provided the following Statement of Intent regarding decommissioning funding. The decommissioning funding obligations are fully backed by the State of North Carolina. Decommissioning funds will be appropriated when necessary following the provisions of General Statute 116-11(9)(a).