

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
BOND FINANCING PROGRAM**

**EXECUTIVE SUMMARY**

<p><b>Applicant:</b> University of San Diego (“USD”) 5998 Alcalá Park San Diego, California San Diego County</p> <p><b>Facility Type:</b> Private University</p> <p><b>Accreditation:</b> Western Association of Schools and Colleges</p>	<p><b>Amount Requested:</b> \$40,000,000</p> <p><b>Date Requested:</b> December 2, 2010</p> <p><b>Resolution Number:</b> 279</p>																
<p><b>Use of Proceeds:</b> Bond proceeds will be used to refund all or a portion of the CEFA Series 1998 and Series 1999 bonds.</p>																	
<p><b>Type of Issue:</b> Negotiated public offering, fixed rates, \$5,000 denominations</p> <p><b>Credit Enhancement:</b> None</p> <p><b>Underlying Credit Rating:</b> A2 (Moody’s)</p> <p><b>Senior Manager:</b> George K. Baum &amp; Company</p> <p><b>Bond Counsel:</b> Orrick, Herrington &amp; Sutcliffe LLP</p>																	
<p><b>Environmental Benefits:</b> Because this is a refunding of existing debt, environmental benefits are not applicable to this financing.</p>																	
<p><b>Financial Overview:</b> USD’s solid growth in its revenue base has contributed to the consistent generation of operating surpluses. USD’s balance sheet reflects good liquidity and solid debt service coverage levels.</p>																	
<table border="0" style="width: 100%;"> <thead> <tr> <th align="left" colspan="2"><u>Estimated Sources of Funds(\$000):</u></th> <th align="left" colspan="2"><u>Estimated Uses of Funds(\$000):</u></th> </tr> </thead> <tbody> <tr> <td>Bond Proceeds</td> <td align="right"><u>\$40,000</u></td> <td>Refunding CEFA Bonds</td> <td align="right">\$39,535</td> </tr> <tr> <td></td> <td></td> <td>Financing Costs</td> <td align="right"><u>465</u></td> </tr> <tr> <td>Total Sources</td> <td align="right"><u>\$40,000</u></td> <td>Total Uses</td> <td align="right"><u>\$40,000</u></td> </tr> </tbody> </table>		<u>Estimated Sources of Funds(\$000):</u>		<u>Estimated Uses of Funds(\$000):</u>		Bond Proceeds	<u>\$40,000</u>	Refunding CEFA Bonds	\$39,535			Financing Costs	<u>465</u>	Total Sources	<u>\$40,000</u>	Total Uses	<u>\$40,000</u>
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<p><b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the applicant.</p>																	
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve Resolution No. 279 in an amount not to exceed \$40,000,000 for the University of San Diego subject to a bond rating of at least investment grade by a nationally recognized rating agency and meeting the standard bond issuance guidelines. Macias Gini &amp; O’Connell, LLP, the Authority’s financial analyst, and Public Financial Management, the Authority’s financial advisor, concurs with the Authority’s staff recommendations.</p>																	

**STAFF SUMMARY AND RECOMMENDATION**

**University of San Diego (“USD”)**

December 2, 2010

Resolution Number: 279

- I. PURPOSE OF FINANCING:** USD is seeking to refund the outstanding Series 1998 Bonds and a portion of the Series 1999 Bonds. This refunding is expected to result in a combined net present value savings of approximately \$2.1 million dollars.

**Refunding CEFA Bonds ..... \$39,535,000**

USD plans to use bond proceeds to refund the Series 1998 outstanding balance of \$20,335,000 and \$19,200,000 of the \$30,856,000 outstanding balance of the Series 1999 bonds.

The 1998 Series Bonds refunded \$37,250,000 in aggregate principal of the CEFA Series 1989 and Series 1992 bonds. The proceeds of the prior bonds were used for the costs of acquisition, construction, expansion, rehabilitation, remodeling, renovation, and/or equipping of the Mission Parking Complex; the Author E. and Marjorie A. Hughes Administration Center; new sports building; a portion of the Ernest and Jean Hahn University Center; the Alcalá Vista Apartments; Presidio Terrace Apartments; campus bookstore; various dormitories; and other various capital expenditures and improvements.

The 1999 Series Bonds were originally issued to finance the construction and equipping of a 150,000 square foot science facility and 110,000 square foot sports complex and student activity center.

**Financing costs ..... 465,000**

Underwriter Fee and Expenses ..... \$194,000  
Costs of Issuance..... 271,000

***TOTAL USES OF FUNDS* ..... \$40,000,000**

## II. PROPOSED COVENANTS, SECURITY AND DISCLOSURES:

Executive summary and recommendations include minimum requirements. Additional or more stringent covenants or disclosures may be added following consultation with Authority staff but without further notification to the Authority's Board. These covenants cannot be diluted or removed without subsequent review. If there have been modifications to the covenant proposal following the preparation of this executive summary, staff will report it at the meeting.

- ✓ **Unconditional Promise to Pay.** *Borrower agrees to pay Trustee all amounts required for principal and interest and other payments and expenses designated in the Loan Agreement. All Revenues<sup>1</sup> and any other amounts held in a designated fund or account under the Bond Indenture are pledged to secure the full payment of the bonds.*
- ✓ **Additional Debt Limitation.** *Borrower agrees not to incur additional Indebtedness unless authorized by the Loan Agreement.*
- ✓ **Disposition of Cash and Property Limitations.** *Borrower agrees not to sell, lease or dispose of substantially all assets unless authorized by the Loan Agreement.*
- ✓ **Comply with SEC Rule 15c2-12.** *The rule prohibits underwriters from underwriting municipal bond deals unless the issuer or borrower contractually agrees to disclose designated financial and operating information to the marketplace during the life of the bonds and to report designated "material events" such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*

Staff has reviewed the entirety of this financing package and finds it to be acceptable.

### Not applicable for this transaction as separate and affirmative covenants:

- **Pledge of Gross Revenues.** *Borrower pledges to deposit all revenues, income, receipts and money received into a Gross Revenues Fund over which the Trustee has a control deposit account agreement.*
- **Negative Pledge Against Prior Liens.** *Borrower agrees not to create or assume any Lien upon Borrower's Property other than the Permitted Encumbrances.*
- **Debt Service Reserve.** *Account established under the Indenture to make principal and interest payments if the Borrower fails to deposit timely payments.*
- **Debt Service Coverage Requirement.** *A ratio measuring ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments.*
- **Security Interest in Designated Property/Deed of Trust.**
- **Cash or Liquidity Requirements.** *Borrower promises to periodically measure the balance of their liquid assets and maintain them at a prescribed level.*
- **Debt to Capitalization Requirement.** *A ratio limiting how much debt can be incurred based on the liquid assets and debt then in place.*
- **Limited Permitted Encumbrances.** *Borrower is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Loan Agreement.*

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<sup>1</sup>Capitalized terms are defined in the Indenture.

### III. FINANCIAL ANALYSIS:

**University of San Diego**  
**Statement of Activities**  
**Unrestricted (\$000's)**

	Year Ended June 30,		
	2010	2009	2008
<b>Operating</b>			
<i><b>Revenues and other additions:</b></i>			
Tuition and fees	\$ 266,940	\$ 254,613	\$ 246,037
Less: tuition discounts and financial aid	(75,965)	(65,524)	(54,836)
Net tuition and fees	190,975	189,089	191,201
Sales and services of auxiliary enterprises	46,057	45,504	40,996
Grants and contracts	9,424	9,333	1,480
Contributions	4,858	4,108	4,675
Investment return distributed	549	544	516
Investment income	2,737	101	2,378
Other revenue	3,046	3,467	2,430
Total revenues	257,646	252,146	243,676
Net assets released from restrictions from operations	11,175	10,884	21,870
Total revenues and other additions	268,821	263,030	265,546
<i><b>Expenses:</b></i>			
Educational programs	131,443	131,834	123,344
Research	2,091	1,879	1,502
Athletics and recreation	12,859	13,363	11,890
Public service	3,574	3,453	3,520
Auxiliary enterprise expenses	41,393	39,252	36,446
Management and general expenses	57,685	60,550	56,959
Total expenses	249,045	250,331	233,661
Increase in net assets from operations	19,776	12,699	31,885
<b>Non-Operating</b>			
<i><b>Investment return:</b></i>			
Investment income (loss)	12,659	(20,044)	166
Less: investment return distributed	(549)	(544)	(516)
Total non-operating investment return	12,110	(20,588)	(350)
Contributions from non-operating activities	-	-	-
Unrealized loss on interest rate swap	(6,355)	(8,376)	(7,614)
Other non-operating change, including UPMIFA	(3,012)	(16,445)	229
Increase/(Decrease) in net assets from non-operating activities	2,743	(45,409)	(7,735)
<i><b>Increase in net assets</b></i>	<b>22,519</b>	<b>32,710</b>	<b>24,150</b>
<b>Net Assets:</b>			
Beginning of year	360,524	393,234	369,084
End of year	\$ 383,043	\$ 360,524	\$ 393,234

**University of San Diego**  
**Statement of Financial Position (\$000's)**

	As of June 30,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 1,930	\$ 6,158	\$ 1,981
Short-term investments	71,812	50,629	59,577
Accounts and loans receivable, net	40,860	37,303	35,888
Other assets	9,734	9,328	8,396
Contributions receivable, net	15,147	10,804	13,904
Property, plant, and equipment, net	469,723	458,035	423,262
Long-term investments	275,479	261,294	343,487
Total assets	\$ 884,685	\$ 833,551	\$ 886,495
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 41,969	\$ 42,251	\$ 38,958
Deferred tuition revenue	16,158	20,940	17,605
Other liabilities	25,400	13,488	4,801
Bonds payable	185,030	188,703	192,588
Refundable advances	10,559	9,891	9,637
Total liabilities	279,116	275,273	263,589
<b>Net assets:</b>			
Unrestricted	383,043	360,524	393,234
Temporarily restricted	74,132	50,866	86,033
Permanently restricted	148,394	146,888	143,639
<b>TOTAL NET ASSETS</b>	605,569	558,278	622,906
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 884,685	\$ 833,551	\$ 886,495

Financial Ratios

	<b>Proforma</b>			
	<b><u>FYE 6/30/10 (a)</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Debt service coverage (x)	3.24	3.64	2.86	4.39
Debt to expendable net assets (x)	0.75	0.66	0.71	0.61
Expendable net assets to operations (x)		1.34	1.05	1.20
Margin (%)		7	5	12

(a) Recalculates FY 2010 results to include the impact of this proposed financing

## **Financial Discussion:**

### **USD continues to demonstrate steady growth in their financial operations, driven by strong enrollment demand and steady increases in tuition and fees.**

USD continues to generate steady operating results over the review period. The steady increase is attributable to incremental increases in student tuition and fees and accounts for 71% of USD's total revenues. Tuition discounts and financial aid expense have also increased over the review period, reflecting an increase of \$20 million in FY 2010. In addition, USD's sales and services of auxiliary enterprises rose from \$40.9 million in FY 2008 to \$46 million in FY 2010. The increase is attributed to room and board rate increases in FY 2009, increased bookstore sales, and increased dining sales volume stemming from the opening of the new Student Life Pavilion.

Unrestricted grants and contracts increased significantly from \$1.4 million in FY 2008 to \$9.4 million in FY 2010. The increase is attributed to a change in auditors in FY 2009 and the reclassification of unrestricted and temporarily unrestricted revenues. (FSP FAS 117-1)<sup>2</sup>

In FY 2009, USD experienced a decline in investment income due to the downturn of the economic climate in the auction rate securities market. In FY 2010, the auction rate securities were redeemed at full par value and USD was able to report a \$2.6 million gain in investment income.

Operating expenses totaled \$249 million in FY 2010, increasing by approximately \$15.3 million or 5.6% as compared to expenses in FY 2008. Increases were due to rising educational and auxiliary enterprise program expenses attributed to salary merit to faculty and staff, increases in medical and other benefit costs, plus the opening of the new dining facility in the Student Life Pavilion.

### **USD's financial strength appears strong with reporting \$605.5 million in total net assets.**

USD's current financial strength appears strong, reporting total net assets of \$605.5 million in FY 2010, the majority of which are unrestricted (\$383 million). Cash and cash equivalents have fluctuated over the review period due to the timing of cash investments and accounts payable check runs. In addition, after FY 2008's decline in the overall investment market and experience with the auction rate securities market, USD strategically increased their readily available assets, resulting in a positive gain of \$12.2 million in short-term investments in FY 2010.

Other liabilities increased from \$4.8 million in FY 2008 to \$25.4 million in FY 2010, which USD reports was driven by a \$15.1 million increase in the mark-to market valuation on its swap agreement as caused by changes in long-term swap rates. In addition, the remaining increase was due to a new \$5 million note taken out to finance construction on energy efficiency equipment.

Based on operating results, debt service coverage ratio appears solid with 3.64x. With the new debt, USD's proforma debt service coverage remains solid with 3.24x.

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<sup>2</sup> FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act and requires additional disclosure about an organization's endowment funds.

#### **IV. BACKGROUND:**

##### **General:**

The University of San Diego (USD) is a private non-profit Catholic university chartered in 1949 and first began operating as the San Diego College for Women and San Diego College for Men. In 1972, the two colleges merged together forming the University of San Diego. USD is located in Linda Vista on a 180-acre campus overlooking Mission Bay and the downtown business area of the City of San Diego. Organized into six academic divisions, USD offers Bachelor's degrees in 39 areas of undergraduate study, 33 Master's degrees, three doctoral degrees, five Master of Law degrees, and the Juris Doctorate.

USD enrolls approximately 7,400 undergraduate and graduate students. Of these 7,400 students 5,300 are enrolled as undergraduates and 2,100 are enrolled as graduate students. Approximately 47% of the graduate students are enrolled in the Law School. USD employs 395 full-time faculty and 433 part-time faculty members.

##### **Administration:**

USD is governed by a self-perpetuating Board of Trustees consisting of 41 Trustees from the elected Trustee class, two Trustees are selected by the California Provincial of the Religious of Sacred Heart, and two Trustees are selected by the incumbent Bishop or Administrator of the Roman Catholic Diocese of San Diego. Trustees shall hold office for a period of three years or until his or her successor is elected. The President of USD serves as a member of the Board with full voting rights for the duration of his or her employment contract. Trustees do not receive compensation for their services.

##### **Academic Programs:**

USD offers a broad spectrum of undergraduate, graduate, professional and continuing education programs. USD includes a College of Arts and Sciences and five professional schools: the School of Business Administration, the School of Leadership and Education Sciences, the School of Law, the Philip Y. Hahn School of Nursing and Health Science, and the Joan B. Kroc School of Peace Studies. In addition, USD offers a number of continuing education programs, workshops, seminars, non-degree classes and certificates. USD continues to enjoy strong enrollment demand increasing full-time equivalent enrollment by 8.9% since FY 2006-07.

##### **Accreditations:**

USD is accredited by the Western Association of Schools and Colleges (WASC), Accreditation Board for Engineering and Technology (ABET), American Bar Association, American Counseling Association, American Psychological Association, Association to Advance Collegiate Schools of Business International, Commission for Accreditation for Marriage and Family Therapy Education, Commission on Collegiate Nursing Education, and the National Council for Accreditation of Teacher Education. Additionally, USD programs have been granted approval by the American Chemical Society, the Board of Registered Nursing, and the California Commission on Teacher Credentialing.

**V. OUTSTANDING DEBT:**

<u>Issue:</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 06/30/10</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<b>Existing Debt:</b>			
CEFA Series 1998	\$ 41,490,000	\$ 20,335,000	\$ -
CEFA Series 1999	31,778,189	30,856,000	11,656,000
CEFA Series 2002A	14,110,000	14,110,000	14,110,000
CSCDA Series 2005	93,415,000	93,415,000	93,415,000
County of San Diego 2001 Certificates of Participation	36,870,000	27,480,000	27,480,000
Subtotal		<u>\$ 186,196,000</u>	<u>\$ 146,661,000</u>
<b>Proposed:</b>			
<b>CEFA Revenue Bonds, Series 2010</b>			<b>40,000,000</b>
Total			<u>\$ 186,661,000</u>

**VI. DUE DILIGENCE:**

Due diligence has been completed with regard to the following items:

- Religious Due Diligence
- Legal Review
- Compliance with Section 94212(b) of the Education Code – California Environmental Quality Act

**VII. STAFF RECOMMENDATION:**

Staff recommends the Authority approve Resolution No. 279 in an amount not to exceed \$40,000,000 for the University of San Diego subject to a bond rating of at least investment grade by a nationally recognized rating agency and meeting the standard bond issuance guidelines. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, and Public Financial Management, the Authority’s financial advisor, concurs with the Authority’s staff recommendations.