CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

Applicant:	Pepperdine University ("Pepperdine") 24255 Pacific Coast Highway Malibu, CA 90263 Los Angeles County	**Amount Requested:** **Date Requested:** **Resolution Number:**	30,000,000 December 7, 2017 316
Facility Type:	Private University		
Project Location:	Malibu, CA		
Accreditation:	Western Association of Schools and Colleges		

Use of Proceeds: Bond proceeds will be used to advance refund a portion of the outstanding CEFA Series 2012 Bonds. The refunding of these bonds is expected to provide Pepperdine with a net present value savings of approximately $1.8 million or 7.1%, under current market conditions.

Type of Issue:	Negotiated public offering, tax-exempt fixed rates
Credit Enhancement:	None
Expected Credit Rating:	Aa3 (Moody's)/AA (S&P)
Financing Team:	*Please see Exhibit 1 to identify possible conflicts of interest*

Environmental Benefits: Since this transaction is a refunding of existing debt, environmental benefits are not applicable to this financing.

Financial Overview: Pepperdine's robust growth in its revenue has contributed to the consistent generation of operating surpluses. Pepperdine has a strong balance sheet with moderate relative debt and a solid debt service ratio of 5.90x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
Par Amount of Bonds	$30,000,000	Refunding	$33,147,551
Premium	3,402,708	Financing Costs	255,157
Total Sources	$33,402,708	Total Uses	$33,402,708

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, and CEQA documentation. All documentation satisfies the Authority's requirements.

Staff Recommendation: Staff recommends the Authority approve Resolution No. 316 in an amount not to exceed $30,000,000 for Pepperdine University subject to a bond rating of at least investment grade by a nationally recognized rating agency. Macias, Gini & O'Connell, LLP, the Authority's financial analyst, and KNN Public Finance, LLC, the Authority's financial advisor, concur with the Authority's staff recommendations.

STAFF SUMMARY AND RECOMMENDATION

Pepperdine University ("Pepperdine")
December 7, 2017
Resolution No. 316

I. PURPOSE OF FINANCING: Pepperdine is embarking on a plan to refinance its debt and take advantage of the attractive market conditions. Bond proceeds will be used to advance refund a portion of the outstanding CEFA Series 2012 Bonds. In addition, bond proceeds will be used to pay the costs of issuance for the Series 2017 Bonds. The refunding will generate an overall net present value savings of approximately $1.8 million or 7.1%, over the life of the bonds, under current market conditions.

Refunding ……………………………………………...…...………………$**33,147,551**

Pepperdine anticipates issuing tax-exempt bonds to advance refund a portion of the CEFA Series 2012 Bonds, of which approximately $42.0 million currently remains outstanding. The CEFA Series 2012 Bonds were originally issued in the amount of $50 million. Bond proceeds were used to refund all of the CEFA Series 2003A bonds, as well as to finance capital improvements on the Malibu campus, including but not limited to renovations of the Thornton Administration Center, renovations and construction of student residences, and renovations to parking facilities and other existing structures.

Environmental Benefits:
Since this transaction is a refunding of existing debt, environmental benefits are not applicable to this financing.

Financing Costs.. **255,157**

Cost of Issuance.. $164,512
Underwriter's Discount 90,645

TOTAL USES OF FUNDS..***$33,402,708***

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.

After reviewing Pepperdine's credit profile, including its current financial profile, prior bond transactions and considering what the market will support, the Authority's financial advisor (KNN Public Finance, LLC or "KNN"), and the underwriter of the proposed bonds have concluded that the covenants listed below should be applicable to this transaction. Pepperdine, the underwriter, and KNN note that the current financial situation of Pepperdine does not suggest that additional covenants should be required by the Authority.

- ✓ **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*[1] *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. No Gross Revenue pledge by Borrower but Revenue pledge under Section 5.01 of Indenture.*

- ✓ **Disposition of Cash and Property Limitations.** *Borrower agrees not to sell, lease or dispose of substantially all assets unless authorized by the Loan Agreement. Sec. 11 of 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. Sec. 15(g) of Loan Agreement.*

Staff has completed its due diligence, and KNN has reviewed the Loan Agreement, Bond Indenture, and prior Pepperdine offering documents associated with this financing package and found these documents and proposed covenants to be acceptable.

[1] Capitalized terms are defined in the Indenture.

III. FINANCIAL ANALYSIS:

Pepperdine University

Statement of Activities

Unrestricted ($000's)

	Year Ended July 31, 2017	2016	2015
Revenues:			
Net tuition and fees	$ 241,191	$ 231,380	$ 217,729
Room and board	36,592	36,923	34,278
Private gifts and grants	39,914	37,168	11,950
Endowment support	10,516	11,747	34,571
Government grants	3,763	3,662	3,574
Sales and services	6,451	6,179	6,815
Other revenue	6,409	5,031	5,463
Net assets released from restrictions	17,469	1,903	9,405
Total revenues	362,305	333,993	323,785
Expenses:			
Instructional and research	95,764	93,768	91,579
Academic support	58,838	60,574	54,588
Student services	56,288	53,585	51,580
Public service	56,803	56,667	14,900
Auxiliary enterprises	28,496	28,978	27,559
Management and general	16,066	15,487	53,566
Alumni relations and development	7,002	6,801	6,172
Fundraising	2,898	2,831	2,545
Total expenses	322,155	318,691	302,489
Change in net assets before non-operating revenues and expenses	40,150	15,302	21,296
Non-operating activities:			
Investment income			
Dividends	5,848	4,287	7,834
Interest	1,467	1,008	340
Other	4,724	4,936	7,138
Investment expenses	(4,540)	(3,503)	(4,156)
Net realized and unrealized investment gains (losses)	47,832	(20,329)	(23,822)
Foreign currency translation	216	353	(789)
Other changes	(3,064)	(6,230)	(734)
Total non-operating revenues and expenses	52,483	(19,478)	(14,189)
Change in net assets	92,633	(4,176)	7,107
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	706,198	710,374	703,267
UNRESTRICTED NET ASSETS, END OF YEAR	$ 798,831	$ 706,198	$ 710,374

Pepperdine University

Statement of Financial Position (000's)

	As of July 31,		
	2017	2016	2015
ASSETS:			
Cash and cash equivalents	$ 148,986	$ 139,895	$ 193,700
Student receivables, less allowance for doubtful accounts	1,587	2,561	2,198
Other accounts receivable	5,953	3,150	4,647
Prepaid expenses, inventories, and other assets	4,126	3,766	2,330
Student loans, less allowance for loan loss	20,621	20,931	21,481
Contributions receivable, net	31,909	34,718	35,872
Investments	1,034,457	951,660	848,218
Assets held as trustee or agent	108,743	117,295	117,032
Property, facilities, and equipment, net	389,976	357,960	358,787
Total assets	$ 1,746,358	$ 1,631,936	$ 1,584,265
LIABILITIES AND NET ASSETS:			
Accounts payable and accrued liabilities	$ 28,856	$ 24,175	$ 22,925
Accrued salaries and wages	4,093	3,693	3,324
Student deposits, advance payments and deferred revenue	13,925	11,166	9,136
Asset retirement obligations	6,506	6,698	6,428
US government-funded student loans	15,495	15,205	16,004
Trust and agency obligations	71,086	65,757	64,323
Other Long-term payable, net	3,233	3,576	-
Long-term obligations	305,939	310,082	261,903
Total liabilities	449,133	440,352	384,043
Net assets:			
Unrestricted	798,831	706,198	710,374
Temporarily restricted	115,569	119,425	127,308
Permanently restricted	382,825	365,961	362,540
Total net assets	1,297,225	1,191,584	1,200,222
TOTAL LIABILITIES AND NET ASSETS	$ 1,746,358	$ 1,631,936	$ 1,584,265

Financial Ratios

	Proforma FYE 7/31/2017 (a)	2017	2016	2015
Debt service coverage (x)	5.75	5.90	3.65	4.08
Debt to expendable net assets (x)	0.38	0.38	0.42	0.32
Expendable net assets to operations (x)		2.84	2.59	2.77
Margin		11%	5%	7%

(a) Recalculates FY 2017 results to include the impact of this proposed financing

Financial Discussion:

Pepperdine's robust growth in its revenue has contributed to the consistent generation of operating surpluses.

Pepperdine continues to post positive operating results over the three-year review period. Total unrestricted revenues have grown from nearly $323.8 million in FY 2015 to approximately $362.3 million in FY 2017, a 12% increase. Revenue increases are in line with Pepperdine's Board-approved tuition rate increases, resulting in consistent growth in net tuition and fees, room and board, and endowment support. Together these sources represent nearly 81.5% of Pepperdine's total unrestricted revenues and continue to provide Pepperdine with a sound revenue base.

Pepperdine experienced a solid turnaround in total non-operating activities improving from negative $14.2 million in FY 2015 to an increase of approximately $52.5 million in FY 2017. According to Pepperdine, this improvement in non-operating activities was primarily due to change in realized and unrealized investment gains and losses from Pepperdine's long-term investment portfolio.

Operating expenses for Pepperdine increased from approximately $302.5 million in FY 2015 to $322.2 million in FY 2017, an increase of 7%. Pepperdine attributes increases to instruction, research, academic support, student services, and plant operations. Although expenses have increased, it is well below the growth of revenues and Pepperdine continues to post positive operating results.

Pepperdine has a strong balance sheet with moderate relative debt and a solid debt service ratio of 5.90x.

During the review period, Pepperdine's total net assets increased from approximately $1.2 billion in FY 2015 to approximately $1.3 billion in FY 2017, an increase of 8.1%. The growth is attributable to strong investments portfolio and solid returns from academic operations. According to Pepperdine, this improvement was achieved despite the unique challenges of difficult external economic conditions and volatile financial markets.

Cash and cash equivalents went from $193.7 million in FY 2015 to approximately $149 in FY 2017. According to Pepperdine, they transferred a portion of cash held at brokerage accounts into operating cash accounts at its primary commercial bank and intend to use the funds currently held in construction project accounts to fund capital improvements, as well as any new funds raised through the proposed CEFA Series 2017 Bonds. The construction or renovation of all facilities fits in with Pepperdine's master plan of growth for the university.

Pepperdine's investments have enjoyed respectable gains, while long-term obligations increased 16.8% from nearly $261.9 million in FY 2015 to approximately $305.9 million in FY 2017. In March 2016, Pepperdine issued approximately $100 million of tax-exempt bonds, which were used to advance refund the I-Bank Series 2010 Bonds. In addition, funds were also used to fund construction of a new dormitory.

Pepperdine's debt service coverage appears strong with a solid debt service coverage ratio of 5.90x for FY 2017. Pepperdine's proforma debt service coverage remains strong at 5.75x with the new debt. Pepperdine's strong balance sheet indicates Pepperdine is capable of carrying the additional debt.

IV. BACKGROUND:

General:
Pepperdine University ("Pepperdine") is an independent private university originally established as Pepperdine College in 1937 by Mr. George Pepperdine, the founder of Western Auto Supply Company. Pepperdine achieved its university status in 1970 with the addition of its graduate and professional schools and became known as Pepperdine University. Pepperdine opened its current Malibu campus in 1972, and currently enrolls approximately 7,700 students in its five colleges and schools. Seaver College, Pepperdine's undergraduate liberal arts college, the School of Law, and the School of Public Policy are headquartered on 830 acres in the Santa Monica Mountains overlooking the Pacific Ocean in Malibu, California.

Administration:
Pepperdine is governed by self-perpetuating Board of Regents composed at present of 38 elected, voting members, including the president of Pepperdine. The Bylaws require that a majority of the Regents in office, a majority of the Executive Committee, the President of the University, and the Chairman of the Board of Regents shall be members of the Churches of Christ. Members of the Board are typically elected for three-year terms. Approximately one-third of the membership is elected annually. The full Board meets four times each year.

Accreditations:
Pepperdine is accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges ("WASC"), the primary accrediting body for institutions of higher education in the western United States. The last WASC accreditation review was completed in 2013 and resulted in a reaffirmation of Pepperdine's accreditation. The School of Law is accredited by the American Bar Association and holds membership in the Association of American Law Schools. The Graziadio School of Business and Management is accredited by the Association to Advance Collegiate Schools of Business. The Graduate School of Education and Psychology receives accreditation for both teacher credentialing and doctoral study in psychology. The American Psychological Association accredits the doctoral program in psychology. The California Commission on Teacher Credentialing accredits Pepperdine's education programs.

Academic Programs:
Pepperdine is comprised of five colleges and schools in Southern California. Seaver College, the School of Law, the Graduate School of Education and Psychology, the Graziadio School of Business and Management, and the School of Public Policy are located on the University's 830-acre campus overlooking the Pacific Ocean in Malibu. Courses are taught in Malibu, at four graduate campuses in Southern California, permanent program facilities in Washington, D.C., and at international campuses in Germany, England, Italy, Switzerland, Argentina, and China.

- Seaver College is Pepperdine's college of letters, arts and sciences offering an interdisciplinary curriculum that provides students with a broad and comprehensive education. With its academic program organized into eight major divisions, Seaver College offers the baccalaureate degree in over 38 fields of study, teaching credential programs in two fields of study, and the master's degree in nine fields of study.

- The School of Law offers a full range of courses dealing with federal, state, and international law, leading to the Juris Doctor or the L.L.M., Dispute Resolution degrees. Additionally, the School of Law offers several Juris Doctor joint degrees.

- The George L. Graziadio School of Business and Management focuses on the development of managers for business, government, and education, and offers graduate and undergraduate degree programs for full-time students and working adults. The school offers several degrees to its students including the Master of Business Administration.

- The Graduate School of Education and Psychology offers masters and doctoral degrees in the education and psychology fields of study, with a total of ten available academic programs.

- The School of Public Policy offers a Master of Public Policy degree along with several joint degree programs in law, business administration, and dispute resolution. It also houses a research and special program division called the Davenport Institute.

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V. OUTSTANDING DEBT ($000's):

Issue:	Original Issue Amount	Amount Outstanding as of 07/31/2017	Estimated Amount Outstanding After Proposed Financing*
Existing Debt:			
CEFA Series 2012	$ 50,000	$ 43,750	$ 17,235
CEFA Series 2014	51,485	50,900	50,900
CEFA Series 2015	76,455	75,230	75,230
CEFA Series 2016	100,000	100,000	100,000
Proposed:			
CEFA, Series 2017			**30,000**
Total		$ 269,880	$ 273,365

*As of proposed issuance date of Series 2017 Bonds, principal balance remaining outstanding

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
- Iran Contracting Act Certificate

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. 316 in an amount not to exceed $30,000,000 for Pepperdine University subject to a bond rating of at least investment grade by a nationally recognized rating agency. Macias, Gini & O'Connell, LLP, the Authority's financial analyst, and KNN Public Finance, LLC the Authority's financial advisor, concur with the Authority's staff recommendations.

EXHIBIT 1

Financing Team
Pepperdine University

Borrower:	Pepperdine University
Agent for Sale:	California State Treasurer
Issuer's Counsel:	Attorney General's Office
Issuer's Financial Advisor:	KNN Public Finance, LLC
Issuer's Financial Analyst:	Macias Gini & O'Connell, LLP
Borrower's Counsel:	Ropes & Gray, LLP
Bond Counsel:	Orrick Herrington & Sutcliffe LLP
Senior Underwriter:	Morgan Stanley & Co. LLC
Co-Manager:	Wells Fargo Securities
Underwriter's Counsel:	O'Melveny & Meyers LLP
Trustee/Escrow Agent:	The Bank of New York Trust Company, N.A
Trustee Counsel:	The Law Office of Samuel D. Waldman
Auditor to the University:	PricewaterhouseCoopers LLP
Verification Agent:	To Be Determined

RESOLUTION NO. 316

RESOLUTION OF THE CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY AUTHORIZING THE ISSUANCE OF REVENUE BONDS TO FINANCE AND REFINANCE EDUCATIONAL FACILITIES OF PEPPERDINE UNIVERSITY

December 7, 2017

WHEREAS, the California Educational Facilities Authority (the "Authority"), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Educational Facilities Authority Act (the "Act") to issue revenue bonds and to loan the proceeds thereof to a participating private college or a participating nonprofit entity (both as defined in the Act) for the acquisition or construction of projects (as defined in the Act), to refund existing bonds, mortgages, or advances or other obligations incurred, given, or made by a participating private college for the acquisition or construction of any projects, to loan the proceeds thereof to a participating private college for the purpose of refinancing projects not originally funded pursuant to the Act (including repayment of costs, as defined in the Act), and to refund existing bonds or notes of the Authority;

WHEREAS, Pepperdine University (the "Borrower") is a nonprofit public benefit corporation duly incorporated and in good standing under the laws of the State of California;

WHEREAS, at the request of the Borrower, the Authority issued the California Educational Facilities Authority Revenue Bonds (Pepperdine University) Series 2012 (the "Series 2012 Bonds") in the aggregate principal amount of $50,000,000, of which approximately $42,000,000 is currently outstanding, and made a loan (the "2012 Loan") of the proceeds thereof to the Borrower to finance or refinance the acquisition or construction of projects, as more particularly described under the caption "Prior Project" in Exhibit A hereto (the "Prior Project");

WHEREAS, the Borrower has requested that the Authority issue its revenue bonds in an aggregate principal amount of not to exceed $30,000,000 and apply the proceeds thereof (i) to make a loan of the proceeds of the Bonds (as defined below) to the Borrower to (i) refinance the 2012 Loan, the proceeds of which were applied to the costs of the Prior Project, and (ii) to pay costs of issuance of the Bonds; and

WHEREAS, approval of the terms of issuance and sale of such revenue bonds and various related matters is now sought.

NOW, THEREFORE, BE IT RESOLVED by the California Educational Facilities Authority as follows:

Section 1. Pursuant to the Act, revenue bonds of the Authority designated as the "California Educational Facilities Authority Refunding Revenue Bonds (Pepperdine University) Series 2017" (the "Bonds"), in a total aggregate principal amount not to exceed $30,000,000, are hereby authorized to be issued from time to time, in one or more series as federally tax-exempt or taxable, with such other name or names of the Bonds or series thereof as designated in the Indenture, hereinafter mentioned in Section 3, pursuant to which the Bonds will be issued. The proceeds of the Bonds shall be used for any or all of the purposes set forth in the fourth recital above.

Section 2. The Treasurer of the State of California (the "Treasurer") is hereby authorized to enter into agreements to sell the Bonds in one or more series, on one or more sale dates at any time within one year of the date of adoption of this Resolution, at public or private sale, in such aggregate principal amount (not to exceed the aggregate principal amount set forth in Section 1) and in such series, at such prices, at such interest rate or rates, with such maturity date or dates and upon such other terms and conditions as the Treasurer, with the advice and consent of the Borrower, may determine. The Bonds, at issuance, shall be rated at investment grade by an active nationally recognized rating agency. The Bonds or any series of them may, at the sole option of the Borrower, be secured or supported by one or more of the following: deed of trust, bond reserve fund, bond insurance, other credit and/or liquidity facility and/or another security arrangement.

Section 3. The following documents:

(a) the Loan Agreement relating to the Bonds (the "Loan Agreement"), between the Authority and the Borrower;

(b) the Indenture relating to the Bonds (the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., a national banking association, as trustee (the "Trustee");

(c) the Purchase Agreement relating to the Bonds (the "Purchase Agreement"), among Morgan Stanley & Co. LLC (the "Underwriter"), the Treasurer and the Authority and approved by the Borrower, and

(d) the Preliminary Official Statement relating to the Bonds (the "Preliminary Official Statement").

are hereby approved in substantially the forms on file with the Authority prior to this meeting, with such insertions, deletions or changes therein (including, without limitation, insertions, deletions or changes therein appropriate to reflect provisions relating to a deed of trust, a bond reserve fund, bond insurance, any other credit and/or liquidity facility and/or another security arrangement, at the sole option of the Borrower, for any series of Bonds) as the officer(s) executing the same may require or approve, such approval to be conclusively evidenced by execution and delivery thereof in the case of the Loan Agreement, the Indenture and the Purchase Agreement, and by delivery thereof in the case of the Preliminary Official Statement. The Acting Executive Director shall seek the advice of bond counsel and counsel to the Authority with respect to any such insertions, deletions or changes therein.

Section 4. The dated dates, maturity dates (not exceeding 50 years from the respective date of issue), interest rates, manner of determining interest rates, interest payment dates, denominations, forms, registration privileges or requirements, place or places of payment, terms of purchase or tender, terms of redemption, provisions governing transfer and other terms of the Bonds, including provisions for credit and/or liquidity facilities, if any, from time to time, shall be as provided in the Indenture, as finally executed.

Section 5. The Underwriter is hereby authorized to distribute the Preliminary Official Statement for each issue of the Bonds to persons who may be interested in the purchase of such Bonds offered in such issuance, it being understood that, at the discretion of the Underwriter (in consultation with the Borrower), a preliminary official statement may not be used with respect to any series of Bonds. The Underwriter is hereby directed to deliver a final official statement for each issue of the Bonds (the "Official Statement") to all actual purchasers of such Bonds.

Section 6. The Bonds, when executed, shall be delivered to the Trustee for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate the Bonds by executing the Trustee's Certificate of Authentication appearing thereon, and to deliver the Bonds, when duly executed and authenticated, to or upon direction of the Underwriter thereof in accordance with written instructions executed on behalf of the Authority, which instructions are hereby approved. Said instructions shall provide for the delivery of the Bonds to or upon direction of the respective Underwriter, as determined and confirmed by the Treasurer, upon payment of the purchase price thereof.

Section 7. Each officer of the Authority is hereby authorized and directed, for and in the name and on behalf of the Authority, to do any and all things which they may deem necessary or advisable in order to consummate the issuance, sale and delivery of the Bonds and otherwise to effectuate the purposes of this Resolution, the Indenture, the Loan Agreement, the Purchase Agreement and the Official Statement. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including without limitation the following: (a) a tax certificate and agreement and other certifications; and (b) any agreement or commitment letter with respect to the provision of bond insurance, a letter of credit, a surety bond, a credit facility and/or a liquidity facility for the Bonds.

Section 8. The provisions of the Authority's Resolution No. 2017-01 apply to the documents and actions approved in this Resolution.

Section 9. The Authority hereby approves and ratifies each and every action taken by its officers, agents and employees prior to the date hereof in furtherance of the purposes of this Resolution.

Section 10. This Resolution shall take effect from and after the date of adoption.

Date of Adoption: ________________________

EXHIBIT A

THE PRIOR PROJECT

The proceeds of the Bonds will be loaned to the Borrower and applied to refund the California Educational Facilities Authority Revenue Bonds (Pepperdine University) Series 2012 the proceeds of which were applied as follows:

(1) to finance the costs of the acquisition, construction, renovation, remodeling and equipping of existing educational, administrative, physical plant and housing facilities and the acquisition of furnishings, equipment, technology and/or library materials for use thereon located on the campus of the Borrower, generally located at 24255 Pacific Coast Highway, Malibu, California (the "Main Campus"), all such project components owned and operated by and for the benefit of the Borrower and to be located at or in the immediate vicinity of the Main Campus as follows:

(a) Student Residences - Partial and complete refurbishments of selected apartments and dormitories. Interior painting. Roofing repairs. Replace baseboard heaters in rooms. Valve replacement of fan coils. Convert lighting in residence halls. Replace boilers and heat exchange. Repair leaks. Enhance energy management system controls. Add drainage to residence high voltage electrical vaults. Resurface walkways at apartments;

(b) Thornton Administrative Center - Replace carpet in public areas on second, third, and fourth floors. Repair tile roof above TAC 422. Tie air conditioning units to hot water system. Roofing repairs. Confirm compliance of electrical panels. Remodel Finance and International Student Services area on the second floor, includes new carpet, furniture, and finishes;

(c) Hardscape and Landscape - Renew and refresh landscape and hardscape near Athletic Village Parking and near John Tyler Drive. Perform landscape mitigation and remediation for mudslide hazard on west slope of the Brock House property. Install tree grates in tree wells. Annual tree trimming and painting for posts, door railings, and light poles;

(d) Campus Grounds - Recondition and seal concrete stairs and walks. Repair and/or replace handrails. Perform remediation for safety concerns. Assess and repair deterioration to natural gas pipelines. Annual slurry seal and painting on campus roads and parking lots. Creation of a landscaped place of renewal for faculty and staff;

(e) Drescher Graduate Campus - Procure and install pony chiller for chiller station at Drescher Graduate Campus;

(f) Smothers Theater - Repair exterior flashing. Address fire code non-compliance in storage areas;

(g) Brock House - Repair and resurface exterior concrete entrance;

(h) Raleigh Runnels Memorial Pool - Refurbish spa, including equipment. Resurface pool deck. Roofing repairs; and

(i) Facilities, Management, and Planning Pad - Replace emergency power generator; and

(2) to refinance and refund a portion of the California Educational Facilities Authority Refunding Revenue Bonds (Pepperdine University) Series 2003A Bonds, the proceeds of which were used, among other things, to finance and refinance the costs of certain facilities, furniture, vehicles and equipment financed or refinanced from proceeds of prior bonds of the Authority for the benefit of the Borrower, as follows:

(a) the acquisition, construction, demolition, expansion, improvement, installation, renovation, equipping, and furnishing of all or a portion of: The Cultural Arts Center, the Law School, the Stotsenberg athletic track, a tennis pavilion, locker rooms and air conditioning for the Firestone Fieldhouse, the Tyler Campus Center, development of the upper campus, a central mainframe computer and related equipment, vehicles and desks and other capital expenditures relating to the Borrower's master plan development;

(b) the acquisition of the London Campus located at 56 Prince's Gate, London and the acquisition, construction, demolition, improvement, installation, renovation, equipping, and furnishing of all or a portion of: the Center for Business and Communications, the Ventura County Center located at 2829 Townsgate Road, Westlake Village, California, various recreational and athletic facilities, the Keck Science Center, Drescher Campus development, graduate housing, parking facilities, infrastructure improvements, energy management and conservation equipment and capital equipment, including computers, vehicles, office and classroom equipment;

(c) the acquisition, construction, demolition, improvement, installation, renovation, equipping, and furnishing of all or a portion of: the Business Communication Building, the Science Center, the Drescher Graduate Campus, including infrastructure comprised of grading, roads and utilities and buildings for the Graziadio School of Business, Executive Center, Graduate School of Education and Psychology, and the School of Public Policy; athletic facilities, including a recreation village with auxiliary gymnasium and a fitness center; and, capital equipment including computers, furniture, vehicles, maintenance equipment and dormitory rewiring for computers, cable television and telephones;

(d) the acquisition, construction, demolition, expansion, improvement, installation, renovation, equipping, and furnishing of all or a portion of the library facilities, various athletic facilities, parking facilities, education center development costs and dormitories;

(e) the refunding of all or a portion of the California Educational Facilities Authority Weekly Rate Revenue Bonds, issued in 1999 in the aggregate principal amount of $20,000,000, the proceeds of which were used to finance and/or refinance the acquisition, construction, demolition, improvement, installation, renovation, and equipping of all or a portion of: the Business Communication Building, the Science Center, the Drescher Graduate Campus, including infrastructure comprised of grading, roads and utilities and buildings for the Graziadio School of Business, Executive Center, Graduate School of Education and Psychology, and the School of Public Policy; athletic facilities, including a recreation village with auxiliary gymnasium and a fitness center; and, capital equipment including computers, furniture, vehicles, maintenance equipment and dormitory rewiring for computers, cable television and telephones;

(f) the refunding of all or a portion of the California Educational Facilities Authority Revenue Bonds, issued in 1994 in the aggregate principal amount of $10,010,000, the proceeds of which were used to refinance the acquisition of the London Campus located at 56 Prince's Gate, London and to finance and/or refinance the acquisition, construction, demolition, improvement, installation, renovation, and equipping of all or a portion of: the Center for Business and

Communications, the Ventura County Center located at 2829 Townsgate Road, Westlake Village, California, various recreational and athletic facilities, the Keck Science Center, Drescher Campus development, graduate housing, parking facilities, infrastructure improvements, energy management and conservation equipment and capital equipment, including computers, vehicles, office and classroom equipment; and

(g) The refunding of all or a portion of the California Educational Facilities Authority Revenue Bonds, issued in 1993 in the aggregate principal amount of $25,500,000, the proceeds of which were used to finance and refinance the acquisition, construction, demolition, expansion, improvement, installation, renovation, and equipping of all or a portion of: The Cultural Arts Center, the Law School, the Stotsenberg athletic track, Strauss Tennis pavilion, locker rooms and air conditioning for the Firestone Fieldhouse, the Tyler Campus Center, development of the upper campus, a central mainframe computer and related equipment, vehicles and desks and other capital expenditures relating to the Borrower’s master plan development.