

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

Applicant:	University of Southern California ("USC") 3500 Figueroa Street, Suite 203 Los Angeles, CA Los Angeles County	Amount Requested:	\$470,000,000
		Loan Term:	30 Years
		Date Requested:	January 25, 2007
		Resolution Number:	244
Facility Type:	Private College		
Project Location:	Los Angeles, CA		
Accreditation:	Western Association of Schools and Colleges		
Use of Bond Proceeds: Bond proceeds will be used to refund the CEFA series 1997A, 1999, 2003A and 2003C bonds, providing an approximate net present value savings of \$9,905,472 or 3.67%. Bond proceeds will also be used to fund various capital projects.			
Type of Issue:	Negotiated Public Offering, Fixed interest rate		
Credit Enhancement:	None		
Expected Rating:	Aa1 (Moody's)/AA+ (S & P)		
Managing Underwriter:	Morgan Stanley		
Co-Managing Underwriter:	Prager, Sealy & Co., LLC		
Bond Counsel:	Hawkins, Delafield & Wood		
Financial Status: USC consistently posts solid operating results supported by its highly diversified revenue streams. The balance sheet exhibits exceptional debt service coverage and good liquidity.			
Sources of Revenue – FYE 06/30/06: (Unrestricted Funds \$000)			
	Amount	Percent	
Tuition & fees, net	\$627,015	30%	
Net appreciation in fair value of investments	291,398	14%	
Gifts & pledges	266,673	12%	
Government contracts & grants	260,924	12%	
Auxiliary enterprises	191,728	10%	
Recovery of indirect costs	105,310	5%	
Clinical practices	94,175	4%	
Professional services agreements	74,370	3%	
Other	71,152	3%	
Endowment income	67,632	3%	
Investment and other income	32,671	2%	
Sales & service	30,649	1%	
Net assets released from restriction	28,825	1%	
Total unrestricted revenue	<u>\$2,142,522</u>	<u>100%</u>	
Estimated Sources of Funds (\$000):		Estimated Uses of Funds (\$000):	
Par amount of bonds	\$463,305	Advance Refunding	\$281,693
Premium	<u>34,710</u>	Capital Projects	213,369
Total Sources	<u>\$498,015</u>	Financing Costs	<u>2,953</u>
		Total Uses	<u>\$ 498,015</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$470,000,000 for the University of Southern California subject to a bond rating of at least an "A" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section and the standard bond issuance guidelines.			

STAFF SUMMARY AND RECOMMENDATION

University of Southern California (“USC”)

January 25, 2007
Resolution Number: 244

I. PURPOSE OF FINANCING:

USC plans to complete several construction, renovation and upgrade projects to enhance its facilities. Bond proceeds and internal funds will be used to fund these projects. Additionally, USC will advance refund the CEFA series 1997A, 1999, 2003A and 2003C bonds, providing an approximate net present value savings of \$9,905,472 or 3.67%.

Projects \$213,369,000

Watt Hall of Architecture and Fine Arts – The renovation and expansion of the existing facilities will add 20,000 square feet that will help strengthen the graduate-level Architectural Program in the areas of computer modeling, sustainability labs and team design rooms.

Harlene Norris Tower – The construction of the 172,000 square-foot facility will house research offices and labs for the USC Norris Comprehensive Cancer Center. This expansion will help further develop and meet the growing needs of the school’s research, education, and patient care needs.

Law School Library – The renovation of 9,200 square feet of library space for the Law School will include new stacks for display, storage for law library material, improved circulation and study space, installation of security devices for book detection and an upgrade of fire/life safety systems.

Research Buildings – The construction of the 150,000 square-foot facility will house the new Stem Cell Research Center, Animal Research Facility and will have a shelled wing for future computational and experimental laboratories. Basic laboratory support spaces, administrative offices and conference rooms are also included in this construction.

Building Entitlements – USC will prepare and track required environmental studies and reports required by governmental agencies for its facilities. The project encompasses several buildings across both the University Park and Health Sciences campuses.

Parking Structures – New construction of parking facilities will accommodate and address increased parking demands generated by growth in student, faculty and staff populations.

University Park Streets – Campus improvements include brick paving, tree planting, street lighting, signage and improved cross walks. The project also includes new and improved traffic signalization at City-specified off-campus locations.

Wrigley Buildings – New construction of educational buildings and dormitories for students, faculty and staff of the USC College Wrigley Institute located on Catalina Island will unite island and mainland educational and research activities.

East Campus Development – Infrastructure improvements in preparation for the relocation of USC Information Technology staff from the main campus to off-site office space include data Center equipment, hardware and software upgrades and installation.

Campus Housing – New construction of a 133,100 square-foot dormitory will house 440 undergraduate and graduate students and 21 resident fellows and advisors. The new dorm will be a residential college focusing on Science and Technology and promoting interdisciplinary research and education.

South Grand Buildings – The upgrade and tenant improvement of existing facilities will benefit the 275 staff members that support the academic and administration computing functions for the University.

Seismic Upgrades – This ongoing renovation project to improve the seismic capability of several University buildings will include 5 student residence halls.

Denny Research Building – The renovation of the existing facility will enhance its utility.

Street Repair/Landscaping – The project will unify the various hard/landscape components of all open spaces including the on-campus streets, vehicular entry points onto the campus, and perimeter landscape treatments around both University Park and the Health Science campuses.

Campus Security – Comprehensive project to retrofit the exterior of all University buildings with an electronically managed access control system for improved safeguarding of students, faculty and staff, as well as university assets.

Campus Housing Fire and Life Safety – Comprehensive project to improve fire/life safety systems in existing campus buildings for improved safeguarding of students, faculty and staff.

General Plant Maintenance – USC is planning several maintenance projects for buildings on both the University Park and Health Sciences campuses.

***Refunding*281,692,638**

USC intends to advance refund the remaining portions of the CEFA Series 1997A, 1999, 2003A and 2003C bonds which will provide USC with a net present value savings of approximately \$9,905,472 or approximately 3.67 % of the refunded bonds.

<i>Financing Costs</i>	2,952,725
Underwriter Fee and Expenses	\$2,316,525
Costs of Issuance	<u>636,200</u>
<i>Other</i>	<u>656</u>
<i>Total Uses of Funds</i>	<u>\$498,015,019</u>

Financing Structure:

- Negotiated public offering, fixed interest rate
- 30-year term
- No credit enhancement
- Expected credit rating Aa1 (Moody's)/AA+(S & P)

II. FINANCIAL ANALYSIS:

University of Southern California Statement of Activities (Unrestricted) \$000

	As of June 30,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:			
Net student tuition and fees	\$ 627,015	\$ 586,800	\$ 542,580
Endowment income	67,632	55,996	49,005
Investment and other income	32,671	19,135	13,378
Net appreciation (depreciation) in fair value of investments	291,398	330,924	284,789
Government contracts and grants	260,924	266,411	259,676
Recovery of indirect costs	105,310	105,260	100,152
Gifts and pledges	266,673	223,973	195,829
Sales and service	30,649	29,535	27,254
Auxiliary enterprises	191,728	186,554	173,258
Professional services agreements	74,370	74,095	71,512
Clinical practices	94,175	81,383	90,165
Loss on the disposal/sale of plant assets	(852)	(2,485)	(3,234)
Other	72,004	68,085	27,013
Net assets released from restrictions	28,825	23,259	33,707
Total revenues and net assets released from restrictions	<u>2,142,522</u>	<u>2,048,925</u>	<u>1,865,084</u>
Operating Expenses:			
Educational and general activities	1,471,281	1,367,531	1,261,085
Health care services	163,871	151,049	164,629
Depreciation	86,092	75,785	70,605
Interest of indebtedness	19,055	18,666	19,091
Loss on refunding	4,335	0	0
Total expenses	<u>1,744,634</u>	<u>1,613,031</u>	<u>1,515,410</u>
 Increase in Unrestricted Net Assets	 346,784	 435,641	 320,196
 Beginning Unrestricted Net Assets	 <u>2,801,140</u>	 <u>2,365,499</u>	 <u>2,045,303</u>
 Ending Unrestricted Net Assets	 <u>\$ 3,147,924</u>	 <u>\$ 2,801,140</u>	 <u>\$ 2,365,499</u>

University of Southern California
Statement of Financial Position
\$000

	As of June 30,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS:			
Cash and cash equivalents	\$ 436,870	\$ 448,271	\$ 443,956
Accounts receivable	62,164	57,029	59,871
Notes receivable	97,082	97,226	94,802
Pledges receivable	170,215	151,082	125,460
Investments	3,404,679	3,042,209	2,681,853
Inventories	68,520	69,507	65,186
Property, plant, and equipment, net	1,293,549	1,067,933	947,757
TOTAL ASSETS	<u>\$ 5,533,079</u>	<u>\$ 4,933,257</u>	<u>\$ 4,418,885</u>
LIABILITIES:			
Accounts payable	\$ 73,088	\$ 60,328	\$ 65,351
Accrued liabilities	86,483	77,807	71,976
Refundable advances	24,105	19,656	23,479
Current portion of long-term debt	3,216	2,910	3,885
Deposits and deferred revenue	90,823	65,757	57,639
Post-retirement health benefit obligation	1,109	2,314	2,314
Actuarial liability for annuities payable	166,950	164,951	169,083
Federal student loan funds	62,779	62,566	62,116
Asset retirement obligations	78,500	-	-
Long-term debt	403,555	397,962	397,314
Other	9,056	7,087	4,011
TOTAL LIABILITIES	<u>999,664</u>	<u>861,338</u>	<u>857,168</u>
Net assets:			
Unrestricted	3,147,924	2,801,140	2,365,499
Temporarily Restricted	208,009	186,499	155,864
Permanently Restricted	1,177,482	1,084,280	1,040,354
TOTAL NET ASSETS	<u>4,533,415</u>	<u>4,071,919</u>	<u>3,561,717</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,533,079</u>	<u>\$ 4,933,257</u>	<u>\$ 4,418,885</u>

Financial Ratios:

	Proforma (a)			
	<u>FYE June 30,</u>			
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Debt service coverage (x)	7.91	20.58	23.51	15.84
Debt to expendable net assets (x)	0.18	0.12	0.13	0.16
Expendable net assets to operations (x)		1.92	1.85	1.66
Margin		19%	21%	19%

(a) recalculates 2006 audited results to include the impact of this proposed financing

Financial Discussion:

USC consistently posts solid operating results supported by its highly diversified revenue streams.

USC generated consistent operating results over the review period. Total revenues have grown from \$1.8 billion in FY 2004 to \$2.1 billion in FY 2006, a 15% increase. Revenues mainly consist of net tuition and fees, gifts and pledges, auxiliary enterprises and government contracts, providing USC with a well-diversified revenue base. These additional revenue streams have enabled USC to generate net income averaging over \$365 million along with good margins ranging from 19% to 21% over the three-year review period.

USC's strong reputation and ranking increases its ability to remain competitive with other California universities and colleges. The number of freshman, transfer and graduate applicants is at its highest in the past five academic years. In academic year 2006, USC received 33,045 freshman and transfer applicants, a 33% increase from academic year 2002 (24,895 freshman and transfer applicants).

The balance sheet exhibits exceptional debt service coverage and good liquidity.

USC's financial strength remains sound. It maintains over \$4.5 billion in total net assets, the majority of which is classified as unrestricted and temporarily restricted (\$3.4 billion). Additionally, total assets have increased 25% over the review period, from \$4.4 billion in FY 2004 to \$5.5 billion in FY year 2006.

Over the review period, USC has effectively managed its long-term debt as exhibited in their impressive debt service coverage levels, averaging nearly 20x. Debt to expendable net assets has also remained consistently low, ranging from 0.12x to 0.16x. With the proposed \$470 million in new and refunding debt (\$35 million in approximate annual payments), USC's debt to expendable net assets increases to only 0.18x. Moreover, the proforma debt service coverage is strong at 7.91x indicating that USC should be able to comfortably repay the proposed debt.

This proposed financing is the sixth in a series of financings with the Authority since 1997.

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III. STUDENT, COLLEGE COSTS, AND FACULTY STATISTICS:

Admissions

The following table provides information regarding the incoming freshman, transfer and graduate students' applicant pool over the past 5 years. In the fall of 2006, the average SAT score for incoming freshman was 1372 and the mean G.P.A. was 4.07.

APPLICATIONS

Academic Year	Freshman			Transfers		
	<u>Applications</u>	<u>Admissions</u>	<u>Enrollments</u>	<u>Applications</u>	<u>Admissions</u>	<u>Enrollments</u>
2002-03	20,268	8,620	2,766	4,627	1,844	1,108
2003-04	22,309	8,753	2,976	4,435	1,932	1,162
2004-05	21,614	8,037	2,770	4,910	2,064	1,315
2005-06	24,095	8,418	2,741	5,786	2,245	1,423
2006-07	27,106	8,634	2,763	5,939	2,071	1,297

Graduate Programs

Academic Year	<u>Applications</u>	<u>Admissions</u>	<u>Enrollments</u>
2002-03	31,439	9,782	4,589
2003-04	33,020	10,437	4,745
2004-05	31,513	9,869	4,832
2005-06	32,494	10,012	4,658
2006-07	34,425	10,539	5,255

The following table lists total regular session student headcount enrollment for the fall semester for each of the past five academic years.

ENROLLMENT AND DEGREES

Academic Year	Enrollment			Degrees Awarded		
	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>	<u>Bachelor</u>	<u>Graduate</u>	<u>Total</u>
2002-03	15,850	13,099	28,949	4,053	4,647	8,700
2003-04	16,040	13,704	29,744	4,344	4,937	9,281
2004-05	16,114	14,348	30,462	4,139	5,253	9,392
2005-06	16,418	14,545	30,963	4,269	5,274	9,543
2006-07	N/A*	N/A	N/A	N/A	N/A	N/A

Tuition, Fees and Room and Board

A five-year summary of tuition, fees, room and board is provided below.

Academic Year	<u>Undergraduate Tuition and Fees</u>	<u>Room and Board</u>	<u>Other**</u>	<u>Undergraduate Total</u>
2002-03	26,956	8,512	2,830	38,298
2003-04	28,692	8,632	2,858	40,182
2004-05	30,512	8,998	2,858	42,368
2005-06	32,008	9,610	2,964	44,582
2006-07	33,892	10,190	2,930	47,012

** Estimated

Faculty

The following table reflects the number of full-time and part-time faculty for the past five academic years as well as the number of full-time faculty with tenure. USC does not track faculty on a FTE basis.

Academic Year	<u>Tenured Full-Time</u>	<u>Other Full-Time</u>	<u>Total Full-Time</u>	<u>Part Time</u>
2002-03	1,064	1,527	2,591	1,322
2003-04	1,103	1,652	2,755	1,260
2004-05	1,121	1,753	2,874	1,240
2005-06	1,174	1,829	3,003	1,205
2006-07	N/A*	N/A	N/A	N/A

* Not Available

IV. BACKGROUND:

General:

USC is a nonprofit, privately endowed, coeducational, nonsectarian university with its principal campus located near downtown Los Angeles, California. Founded in 1880, USC is the oldest independent research and teaching university on the West Coast. In academic year 2005-06, USC provided instruction to 16,418 (FTE) undergraduate students and 14,545 (FTE) graduate, professional and other students.

Administration:

A self-perpetuating Board of Trustees, presently comprised of approximately 50 voting members, governs USC. The Board of Trustees is responsible for the overall management of USC including its academic policy, development, long-range land use and resource planning, and supervision of financial and budgetary affairs.

The President of USC is appointed by the Board of Trustees and, as Chief Executive Officer, is charged with the principal responsibility for administration of USC. All other officers of USC, with the exception of the Chairman and Vice Chairmen, are elected by the Board of Trustees upon nomination by the President and are subject to the day-to-day direction of the President.

Accreditations and Affiliations:

USC is accredited by the Western Association of Schools and Colleges.

USC is one of 26 private colleges and/or universities that are members of the Association of American Universities. It is also a member of the American Association of Colleges of Pharmacy; State of California Board of Pharmacy; American Association of Dental Schools; American Association for Teacher Education; American Society for Engineering Education; California Council on Teacher Education; American Association for Higher Education; American Council on Education; Association of American Colleges; Association of Independent California Colleges and Universities; College Entrance Examination Board; Council for Advancement and Support of Education; Council of Graduate Schools; Western Association of Graduate Schools; American Association of Collegiate Registrars and Admissions Officers; North American Association of Summer Sessions; National Association of College and University Business Officers; National University Extension Association; and the Association of Continuing Higher Education.

Academic Programs:

USC offers a multi-disciplinary curriculum at both the undergraduate and graduate levels. Academic programs are offered through three basic components. The College of Letters, Arts and Sciences (“LAS”); the Graduate School; and 18 professional schools. More specifically, the academic units are: Accounting, Architecture, Business Administration, Cinema-Television and Drama, Annenberg School of Communications, Dentistry, Education, Engineering, Fine Arts, Gerontology, Graduate School, Health Related Professions, Law, LAS, Medicine, Music, Pharmacy, Public Administration, Safety and Systems Management, Social Work and Urban and Regional Planning.

Competition:

USC competes with the finest institutions in California and the United States and is ranked 27th in the U.S. News and World Report national rankings for 2007. It is likely that students applying to USC are also applying to the University of California System, Stanford and Ivy League institutions.

V. OUTSTANDING DEBT (\$000):

Issue Name	Original Issue Amount	Amount Outstanding As of 6/30/06*	Estimated Amount Outstanding after Proposed Financing
Existing Debt:			
<i>CEFA, Series 1997A</i>	\$40,085	\$14,521	\$2,395
<i>CEFA, Series 1998A</i>	30,360	30,360	30,360
<i>CEFA, Series 1999</i>	60,000	60,950	-0-
<i>CEFA, Series 2003A</i>	150,000	151,917	-0-
<i>CEFA, Series 2003B</i>	12,795	11,100	11,100
<i>CEFA, Series 2003C</i>	50,000	53,569	-0-
<i>CEFA, Series 2005</i>	66,545	69,450	69,450
<i>USC, Series 1998</i>	13,585	11,551	11,551
Proposed:			
<i>CEFA, Series 2007</i>		<u>N/A</u>	<u>470,000</u>
Total		<u>\$403,418</u>	<u>\$594,856</u>

*As presented in 2006 USC Financial Report - Note 6 (excluding \$3.3 million - Mortgages) and includes portion of long-term debt.

VI. RELIGIOUS AFFILIATION DUE DILIGENCE:

Staff has reviewed the Applicant's responses to the questions contained in the Religious Affiliation portion of the application. No information was disclosed in the questionnaire or discovered by staff to question the Applicant's compliance with the provisions of the Authority's Act relating to religious affiliation.

VII. COMPLIANCE WITH ASSEMBLY BILL 1341:

Assembly Bill 1341 (Chapter 714, 2006) requires that prior to an action by the Authority Board, all applicants must provide the Authority with documentation certifying that a proposed project has complied with the California Environmental Quality Act (CEQA), or that the project is not subject to CEQA.

USC has provided the necessary documents to show compliance with AB 1341.

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to questions the financial viability or legal integrity of the Applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a Resolution in an amount not to exceed \$470,000,000 for the University of Southern California subject to a bond rating of at least an "A" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section and the standard bond issuance guidelines.