

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**

**EXECUTIVE SUMMARY**

<p><b>Applicant:</b> University of San Francisco ("USF") 2130 Fulton Street San Francisco, California San Francisco County</p> <p><b>Facility Type:</b> Private College</p> <p><b>Project Location:</b> San Francisco, CA</p> <p><b>Accreditation:</b> Western Association of Schools and Colleges, State Bar Examiners</p>	<p><b>Amount Requested:</b> \$100,000,000</p> <p><b>Date Requested:</b> October 30, 2008</p> <p><b>Resolution Number:</b> 265</p>																								
<p><b>Use of Bond Proceeds:</b> Bond proceeds will be used to refund the CEFA 2005A and 2006 auction rate securities.</p>																									
<p><b>Type of Issue:</b> Negotiated Public Offering, fixed rate, 40-year maturity variable rate (if economically feasible)</p> <p><b>Credit Enhancement:</b> Letter of Credit (if variable rate used)</p> <p><b>Security Provision:</b> Gross Revenue Pledge</p> <p><b>Expected Rating:</b> A3 (Moody's)</p> <p><b>Underwriter:</b> Banc of America Securities, LLC</p> <p><b>Bond Counsel:</b> Sidley Austin, LLP</p>																									
<p><b>Environmental Benefits:</b> Because this is a refinancing of existing debt, environmental benefits are not applicable to this financing.</p>																									
<p><b>Financial Status:</b> USF shows continued revenue growth during the review period. USF's balance sheet remains solid with good debt service coverage.</p>																									
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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 a resolution for an amount not to exceed \$100,000,000 for the University of San Francisco, subject to the bonds being rated at least an "A" category by a nationally recognized rating agency and meeting the standard bond issuance provisions for A rated debt.</p>																									

**STAFF SUMMARY AND RECOMMENDATION**

**University of San Francisco (“USF”)**

October 30, 2008

Resolution Number: 265

**I. PURPOSE OF FINANCING:**

University of San Francisco (USF) is seeking to refund its auction rate securities due to the dramatic changes in the auction rate bond markets. The refunding will allow USF to better position themselves with a more affordable and stable rate structure and to terminate the insurance policy with MBIA.

**Refunding CEFA 2005A and 2006 bonds ..... \$83,300,000**

USF intends to refund the CEFA Series 2005A and 2006 bonds with fixed rate bonds. However, if the market condition is unfavorable at the time of bond sale, USF may issue variable rate bonds backed by a letter of credit. The CEFA Series 2005A and 2006 bonds were used for various construction, renovation, campus technology upgrades and various other capital projects. In addition, bonds were used to refinance a portion of CEFA Series 1996 bonds and reimburse USF for prior capital expenditures.

**Debt Service Reserve Fund ..... 8,800,000**

**Swap Termination Fee ..... 7,000,000**

**Financing Costs ..... 900,000**

Costs of Issuance ..... 900,000

***TOTAL USES OF FUNDS ..... \$100,000,000***

## II. FINANCIAL ANALYSIS:

University of San Francisco  
Statement of Activities  
Unrestricted (000)

	Period Ending May 31,		
	2007	2006	2005
<b>Revenues:</b>			
Tuition and fees	\$ 204,636	\$ 187,974	\$ 173,080
Grant and contracts	10,092	8,589	10,285
Investment income	8,876	5,157	3,229
Contributions	7,015	7,086	9,488
Net realized/unrealized gains on investments	24,800	17,358	15,797
Change in value of interest rate swap agreements	(2,301)	5,483	(1,560)
Auxiliary revenue	26,893	24,884	23,123
Other	6,013	5,137	5,209
Net assets released from restrictions	10,099	8,168	651
<b>Total revenue and other support</b>	<b>296,123</b>	<b>269,836</b>	<b>239,302</b>
<b>Expenses:</b>			
Program expenses:			
Instruction	97,359	93,270	90,153
Research	1,113	1,024	1,170
Public service	1,219	1,290	1,024
Academic support	29,029	25,061	24,521
Student services	21,623	20,674	18,477
Institutional support	34,932	29,622	26,861
Scholarships and fellowships	43,056	39,959	35,498
Auxiliary enterprises	23,746	25,385	23,180
Other	176	228	245
<b>Total expenses</b>	<b>252,253</b>	<b>236,513</b>	<b>221,129</b>
Change in donor stipulations	(12)	-	-
<b>Increase in net assets</b>	<b>43,858</b>	<b>33,323</b>	<b>18,173</b>
Cumulative effect on prior years due to change in accounting principle	-	(2,179)	7,116
Unrestricted Net Assets - Beginning of year	243,377	212,233	186,944
<b>Unrestricted Net Assets - End of year</b>	<b>\$ 287,235</b>	<b>\$ 243,377</b>	<b>\$ 212,233</b>

University of San Francisco  
Statement of Financial Position (000)

	As of May 31,		
	2007	2006	2005
<b>Assets:</b>			
Cash and cash equivalents	\$ 39,510	\$ 25,362	\$ 24,096
Receivables	47,882	50,160	42,482
Investments	247,041	212,800	197,307
Restricted investments	30,151	38,368	6
Benefit under interest rate swap agreements	1,305	3,606	-
Prepaid expenses and other assets	9,588	9,357	8,592
Property, plant and equipment, net	273,359	263,949	244,144
Total assets	648,836	603,602	516,627
<b>Liabilities and Net Assets:</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	25,200	22,915	21,833
Asset retirement obligations	2,410	2,412	
Liability under split interest agreements	2,778	2,513	2,077
Liability under interest swap agreement		-	1,877
Deferred revenue	9,928	8,843	11,288
Federal student loan funds	9,614	9,649	9,508
Line of credit	185	234	3,502
Bonds payable	179,620	180,880	133,230
Total liabilities	229,735	227,446	183,315
<b>Net Assets:</b>			
Unrestricted	287,235	243,377	212,233
Temporarily restricted	25,379	30,934	30,039
Permanently restricted	106,487	101,845	91,040
Total net assets	419,101	376,156	333,312
<b>Total Liabilities and Net Assets</b>	<b>\$ 648,836</b>	<b>\$ 603,602</b>	<b>\$ 516,627</b>

**Financial Ratios:**

	Proforma (a)			
	<u>FYE May 31, 2007</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Debt service coverage (x)	1.88	1.85	4.29	3.31
Debt to expendable net assets (x)	0.64	0.57	0.66	0.55
Expendable net assets to operations (x)		1.24	1.16	1.09
Margin (%)		14.8	12.3	7.5

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

## **Financial Discussion:**

### **USF shows continued revenue growth during the review period.**

Total revenues have increased 24%, from \$239 million in fiscal year 2005 to \$296 million in fiscal year 2007. The increase in total revenues is attributable to a rise in student tuition and fees, which comprise 69% of USF's total revenues. The remaining total revenue are grants and contracts, investment and investment-related income, contributions and other revenue.

USF began the private portion of its capital campaign in June 2002 with a goal of raising \$175 million and completed their campaign May 31, 2007, exceeding their goal by \$3 million, raising \$178 million. Capital campaign funds were used for various construction and renovation projects, and to fund academic and other endowments.

USF continues to see improvements in investment income during fiscal year 2007, with a \$3.7 million gain compared to \$15 million gain in fiscal year 2006. The investment gains reflect increased value in USF's diverse portfolio components, most significantly, equity and private equity securities.

Expenditures have kept in line with consistent growth and expansion in enrollment, instruction, academic support and USF's funded financial aid expenses.

For fiscal year 2008, management anticipates tuition, fee and auxiliary revenue, net of scholarships and fellowships, to increase by approximately 9%. Contributions are projected to remain steady compared to the prior fiscal year, at approximately \$14 million. Total unrestricted assets are estimated to increase slightly, by approximately \$5 million.

Current and future fundraising efforts will be focused on raising funds for a \$70 million renovation and expansion of USF's science building.

### **USF's balance sheet remains strong with good debt service coverage.**

Unrestricted net assets have continued to be solid, from \$212 million in fiscal year 2005 to \$287 million in fiscal year 2007, an increase of approximately 35% due to realized and unrealized gains on investments, contribution revenue from the USF's capital campaign, and an operating budget surplus. Cash and cash equivalents have increased from \$24 million in fiscal year 2005 to \$39.5 million in fiscal year 2007 due to cash donations received and the operating budget surplus. USF's debt service coverage is at 1.85x. With the proposed new debt of \$100 million, the debt service coverage remains solid at 1.88x, indicating that USF should be able to meet its obligation.

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

##### **University of San Francisco:**

USF, a California corporation, is a private non-profit educational institution founded in 1855 and is located on a 55-acre hilltop near Golden Gate Park in San Francisco, California. USF enrolls approximately 8,700 undergraduate and graduate students in its six colleges and professional schools. USF's faculty includes approximately 897 full and part-time members.

##### **Administration:**

USF is governed by a self-perpetuating Board of Trustees, which is presently composed of 44 members. Members of the sponsoring religious body, the Society of Jesus, constitute approximately one-third of the membership while the remaining Trustees represent diverse backgrounds: religious, financial, legal, cultural, educational, and mercantile. USF welcomes persons of all religious persuasions as members of its student body, faculty and administration.

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

USF has a wide range of academic majors and special programs, as well as a culturally diverse student body. Specific programs offered by USF that are unique include: the dual degree program in Teacher Education, Advance Degree/Bachelor of Science and the Doctor of Nursing Practice program in the school of Nursing, and the Hospitality Management program in the McLaren School of Business.

##### **Accreditations:**

USF is accredited by the Western Association of Schools and Colleges. It also has professional accreditation or approval from the following organizations: American Chemical Society, American Psychological Association, Computing Sciences Accrediting Board, National Collegiate Athletic Association (Division I), United States Department of Justice, American Association of Collegiate Registrars and Admissions Officers, American Association of Colleges of Nursing, American Association of Higher Education, American Council on Education, Association of American Colleges, Association of Catholic Colleges and Universities, Association of Independent California Colleges and Universities, Association of Jesuit Colleges and Universities, California Association of Colleges for Teacher Education, College Entrance Examination Board, Conference of Jesuit Law Schools, Conference of Western Law Schools, Council for the Advancement of Experiential Learning, and Council of Graduate Schools in the United States.

**V. OUTSTANDING DEBT:**

Issue Name:	Original Amount	Amount Outstanding As of 5/31/07	Estimated Amount Outstanding after Proposed Financing
<b>Existing</b>			
CEFA Revenue Bonds, Series 1996	\$ 75,000,000	\$ 9,810,000	\$ 9,810,000
CEFA Revenue Bonds, Series 2000	27,000,000	24,000,000	24,000,000
CEFA Revenue Bonds, Series 2003	40,000,000	38,200,000	38,200,000
CEFA Revenue Bonds, 2005 Series A	23,410,000	23,210,000	-
CEFA Revenue Bonds, 2005 Series B	27,500,000	27,500,000	27,500,000
CEFA Revenue Bonds, Series 2006	60,000,000	56,900,000	-
<b>Proposed</b>			
CEFA Revenue Bonds, Series 2008			100,000,000
Totals		<u>\$ 179,620,000</u>	<u>\$ 199,510,000</u>

**V. 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 a resolution for an amount not to exceed \$100,000,000 for the University of San Francisco, subject to the bonds being rated at least an “A” category by a nationally recognized rating agency and meeting the standard bond issuance provisions for A rated debt.