

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

Applicant: University of the Pacific (“UOP”) Stockton, CA San Joaquin County	Amount Requested: \$37,470,000 Date Requested: March 26, 2009 Resolution Number: 267
Facility Type: Private University	
Project Sites: Stockton, CA (San Joaquin County), San Francisco, CA (Alameda County), Sacramento, CA (Sacramento County), Union City (Alameda County)	
Accreditation: Western Association of Schools and Colleges	

Use of Proceeds: Bond proceeds will be used to finance various capital improvement projects as well as to current refund all or a portion of the CEFA Series 1998 bonds.

Type of Issue: Negotiated public offering, fixed rates
Security Loan Provisions: General obligation of UOP
Credit Enhancement: None
Underlying Credit Rating: A2 (Moody’s)
Senior Manager: Prager, Sealy & Co., LLC
Bond Counsel: Orrick, Herrington & Sutcliffe, LLP

Environmental Benefits: UOP plans to apply LEED standards throughout the course of the projects. Additionally, UOP will apply principles of sustainability and related best practices in the daily maintenance and operation of these projects.

Financial Overview: UOP appears to have exhibited moderate operating results over the review period. UOP’s balance sheet appears to be strong, with significant financial resources.

Sources of funds:		Uses of funds:	
Par Amount of Bonds	\$37,470,000	Project Fund	23,815,470
		Refunding	9,988,900
		Debt Service Reserve Fund	3,011,400
		Financing Costs	<u>654,230</u>
Total Sources	<u>\$37,470,000</u>	Total Uses	<u>\$37,470,000</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 \$37,470,000 for the University of the Pacific subject to a bond rating of at least an “A” category by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” category rated debt.

STAFF SUMMARY AND RECOMMENDATION

University of the Pacific (“UOP”)

March 26, 2009

Resolution Number: 267

I. PURPOSE OF FINANCING: UOP plans to complete several construction and renovation projects to make the educational experience more engaging and rewarding for its students. These projects have been identified as needed by UOP’s master plan and will also help to maintain or improve their competitive market position. Additionally, UOP may refund all or a portion of the CEFA Series 1998 bonds, providing an estimated net present value savings of \$135,000 or 1.36%.

Projects\$23,815,470

Chambers Technology Center – UOP plans to construct an approximate 25,000 square foot facility that will consolidate the School of Engineering and Computer Sciences departments. The state-of-the-art building will provide a new learning and research facility to enhance UOP’s capacity to provide training in computer technology and engineering.

Janssen-Lagorio Multi-purpose Gymnasium – The new facility will provide an indoor gymnasium space of approximately 22,000 square feet for student recreation, activity classes and athletic practice. The gymnasium will be jointly managed by the Department of Athletics and the Division of Student Life.

Data Center Renovation – UOP intends to renovate an existing facility to house the Data Center. The Data Center is comprised of UOP’s main computers and data servers. The renovated facility will provide a modern, energy efficient setting for UOP’s computer operations.

Dugoni School of Dentistry Improvements – The Dugoni School of Dentistry plans to upgrade the elevators in its main campus building and student residence facility. In addition, the School also plans to upgrade its telecommunication system with the installation of a Voice Over Internet Protocol.

Environmental Benefits:

UOP’s construction projects will apply LEED standards throughout the course of the projects, including features such as: highly efficient HVAC systems, window systems, active energy consumption monitoring, and facility maintenance.

Refunding \$9,988,900

UOP may refund all or a portion of the outstanding balance of the CEFA Series 1998 bonds, which is approximately \$9,988,900. The current refunding of the CEFA Series 1998 bonds will provide UOP with a net present value savings of approximately 1.36% or \$135,000. The bonds were originally issued to finance the acquisition, construction, renovation and expansion of various campus facilities.

Debt Service Reserve Fund\$3,011,400

Financing costs.....\$654,230

Underwriter Fee and Expenses\$381,025

Costs of Issuance.....273,205

***TOTAL USES OF FUNDS* \$37,470,000**

II. FINANCIAL ANALYSIS:

University of Pacific
Statement of Activities—
Unrestricted (\$000s)

	Year Ended June 30,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
Tuition and fees, net	\$ 163,378	\$ 154,267	\$ 144,066
Sales and services of auxiliary enterprises	26,128	26,317	25,408
Government grants and contracts	39,086	35,359	37,082
Private grants, gifts, and bequests	13,751	9,350	7,589
Investment return distributed	14,107	13,951	10,556
Dental clinic fees	12,483	11,446	10,990
Other	7,167	8,226	7,331
Net assets released from restrictions	<u>2,488</u>	<u>11,220</u>	<u>3,218</u>
Total revenues	<u>278,588</u>	<u>270,136</u>	<u>246,240</u>
Expenses:			
Instructional and departmental research	113,114	105,578	100,898
Auxiliary enterprises	25,805	25,439	24,288
Sponsored programs	35,805	30,710	29,802
Academic support	20,761	18,621	17,675
Student services	16,246	15,075	14,331
Student aid	2,342	2,276	2,160
General administration	11,741	10,618	10,216
Fund-raising activities	8,747	8,538	8,398
Operations and plant maintenance	17,085	15,566	14,675
Depreciation and amortization	12,468	11,923	11,891
Interest	<u>5,997</u>	<u>6,009</u>	<u>4,637</u>
Total expenses	<u>270,111</u>	<u>250,353</u>	<u>238,971</u>
Change in net assets from operations	8,477	19,783	7,269
Other changes:			
Investment return net of distributions	(22,208)	22,415	9,190
Cumulative effect of change in accounting principle	-	-	(6,197)
Change in net assets	(13,731)	42,198	10,262
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>261,220</u>	<u>219,022</u>	<u>208,760</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 247,489</u>	<u>\$ 261,220</u>	<u>\$ 219,022</u>

University of Pacific
Statement of Financial Position (\$000s)

	As of June 30,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS:			
Cash and cash equivalents	\$ 12,671	\$ 10,534	\$ 16,879
Accounts receivable, net	26,126	21,704	18,828
Pledges receivable, net	13,093	19,634	20,331
Inventories, prepaid expenses and other assets	8,058	6,696	6,633
Student loans receivable, net	33,901	32,155	29,761
Investments	313,884	368,459	319,388
Fixed assets, nets	227,896	182,433	176,640
Total assets	\$ 635,629	\$ 641,615	\$ 588,460
LIABILITIES AND NET ASSETS:			
Accounts payable and accrued liabilities	\$ 29,002	\$ 25,233	\$ 18,738
Asset retirement obligation	6,800	6,767	6,505
Advance deposits and deferred revenue	15,294	14,930	14,521
Self-insurance reserves	3,668	3,528	4,416
Early retirement reserves	2,191	2,191	2,191
Capital lease obligations	2,064	655	569
Notes and bonds payable	116,590	119,656	118,045
Trust and annuity obligations	9,728	9,522	11,666
Federal student loan funds	27,766	27,271	26,754
Total liabilities	213,103	209,753	203,405
Net assets:			
Unrestricted	247,489	261,220	219,022
Temporarily restricted	33,957	39,378	39,472
Permanently restricted	141,080	131,264	126,561
TOTAL NET ASSETS	422,526	431,862	385,055
TOTAL LIABILITIES AND NET ASSETS	\$ 635,629	\$ 641,615	\$ 588,460

Financial Ratios

	Proforma			
	<u>FYE 6/30/08</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Debt service coverage (x)	0.40 (a) (b)	0.50	6.99	3.92
Debt to expendable net assets (x)	0.52	0.42	0.40	0.46
Expendable net assets to operations (x)		1.04	1.20	1.08
Margin		3%	7%	3%

(a) Recalculates FY 2008 results to include the impact of this proposed financing

(b) Calculating the proforma debt service coverage ratio using only operating results equals 2.27x

Financial Discussion:

UOP appears to have exhibited moderate operating profits over the review period.

UOP appears to have posted positive operating results over the review period. These positive earnings are the result of higher revenues generated from a diversified revenue base. Net tuition and fees, which represents 59% of the total revenues, has steadily increased over the review period from \$144 million in FY 2006 to \$163 million in FY 2008, a 13% increase. In addition, UOP has been successful in obtaining higher government gifts and grants, private gifts and grants and dental clinic fees which supports UOP's operational results.

In FY 2008, these positive operational results were offset by non-operational losses, specifically investment losses. As recently experienced by other colleges and universities, investment losses can be attributed to a volatile financial market. The loss was approximately \$14 million in FY 2008, as compared to an operational gain of \$8 million. Total investments as shown on the balance sheet dropped in value from \$368 million in FY 2007 to \$314 million in FY 2008.

UOP's balance sheet appears to be strong, with significant financial resources.

UOP's balance sheet appears to exhibit strength. Despite its investment losses, UOP has generally been able to maintain its total net assets level from FY 2006 to FY 2008. In FY 2006, total net assets equaled \$385 million and increased 12% to \$432 million in FY 2007. Total net assets in FY 2008 dipped slightly to \$423 million in FY 2008, due to the investment losses indicated above.

These investment losses also affected the debt service coverage ratio in FY 2008, which was 0.52x. Based strictly on operational results, however, the ratio would be a solid 2.86x and the proforma operating debt service coverage ratio would be a 2.27x.

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III. BACKGROUND:

General:

Founded in 1851, UOP is the oldest chartered university in California. From its beginnings in Santa Clara, the institution has evolved into an institution with campuses in Stockton, Sacramento, and San Francisco. UOP's main campus in Stockton offers an array of undergraduate programs in the arts and sciences, in addition to several undergraduate, graduate and professional programs, including international studies, music, pharmacy, business, engineering, and education. UOP's campus in Sacramento houses the McGeorge School of Law, one of the largest law schools in California, which offers legal training to approximately 1,100 students each year, along with a variety of legal and legal related programs to practitioners in the western United States. UOP's Dugoni School of Dentistry in San Francisco has a record of training practicing dentists, while providing clinical services to qualified clinics in the Bay Area as well as on the Stockton campus. The School of Dentistry enrolls approximately 500 students annually, including approximately 30 students in an undergraduate dental hygiene program offered at the University's Stockton campus.

Administration:

UOP is governed by a Board of Regents (the "Board") which provides general oversight and direction to the University. UOP's by-laws state that the Board shall consist of not less than 21 and not more than 33 persons. The Board by-laws have established three-year Board terms and term limits. The Board has also adopted a process for member evaluation, including an annual assessment on Board member attendance and participation.

Accreditations:

UOP has been accredited since 1949 by 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 was in March 2000, in which WASC reaffirmed UOP's accreditation to 2010.

Academic Programs:

UOP comprises nine colleges and schools on three campuses in major cities of Northern California:

- In Stockton, the College of the Pacific (Arts & Sciences), Conservatory of Music, Eberhardt School of Business, Gladys L. Benerd School of Education, School of Engineering, School of Internal Studies, Thomas J. Long School of Pharmacy and Health Sciences, and Graduate School offer a variety of undergraduate, professional and graduate degrees.
- In Sacramento, the McGeorge School of Law offers the Juris Doctor degree with an array of specialist concentrations.
- In San Francisco, the Dugoni School of Dentistry offers a Doctor of Dental Surgery, post-graduate studies for graduates of foreign dental programs, advanced general dentistry, and oral and maxillofacial surgery.

IV. OUTSTANDING DEBT (\$000's):

<u>Issue:</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 06/30/08</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing Debt:			
CEFA Pool, Series 1997A	\$ 9,570	\$ 2,380	\$ 2,380
CEFA, Series 1998	12,500	10,330	-
CEFA, Series 2000	41,000	12,710	12,710
CEFA Equipment Loan, Series 2003	1,200	128	128
CEFA, Series 2004	11,500	9,830	9,830
CEFA, Series 2006	77,180	76,205	76,205
CEFA Equipment Loan, Series 2007	4,250	3,711	3,711
<i>Proposed:</i>			
CEFA, Series 2009			<u>37,470</u>
Total		<u>\$ 115,294</u>	<u>\$ 142,434</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

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve a Resolution in an amount not to exceed \$37,470,000 for the University of the Pacific subject to a bond rating of at least an “A” category by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” category rated debt.