

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

<p>Applicant: Pepperdine University Malibu, California Los Angeles County</p> <p>Facility Type: Private university</p> <p>Accreditations: Western Association of Schools and Colleges and American Bar Association</p>	<p>Amount Requested: \$40,000,000</p> <p>Loan Term: 30 Years</p> <p>Date Requested: July 27, 2000</p> <p>Final Resolution Number: 180</p>																											
<p>Use of Bond Proceeds: Bond proceeds will be used to complete the development of Pepperdine's Drescher Graduate Campus.</p>																												
<p>Type of Issue: Public offering, fixed rate</p> <p>Credit Enhancement: None</p> <p>Expected Rating: A1 (Moody's)</p> <p>Senior Underwriter: Prager, McCarthy & Sealy</p> <p>Bond Counsel: Arter & Hadden</p>																												
<p>Financial Overview: Consistent operating performance derived from strong student demand. Substantial resource base and relatively new facilities provide significant operational flexibility. Pepperdine is well positioned to manage the proposed new debt obligations. With this new bond issuance, Pepperdine will be the Authority's third largest borrower.</p>																												
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<p>Recommendation: Staff recommends the Authority approve a resolution in an amount not to exceed \$40,000,000 for Pepperdine University, subject to the bonds having at least an "A" rating by a nationally recognized rating agency and meeting the standard bond issuance guidelines for "A" rated debt.</p>																												

STAFF SUMMARY AND RECOMMENDATION

Pepperdine University

July 27, 2000

Final Resolution Number: 180

- I. PURPOSE OF FINANCING:** This financing will enable Pepperdine University to complete development of its Drescher Graduate Campus (DGC) to relieve campus crowding and to provide much needed student, faculty and staff housing.

The current Malibu campus is over crowded due to the following expansion of services: The University began its residential MBA Program in 1986; added students to its Graduate School of Education and Psychology and inaugurated its School of Public Policy. When the DGC is completed, over 330 students will be relocated to the expansion site and existing campus facilities will experience relief.

Moreover, the University believes in the value of a residential campus experience. Only the construction of additional on-campus housing for students, faculty and staff will meet this specific goal.

Project related to earlier issuance:

This proposed bond issuance to complete the DGC is related to an earlier issuance (Series 1999A) for \$30 million. The Authority approved this initial \$30 million for a \$100.5 million construction project, which included DGC. At the time, the University had hoped to use internal funds and solicit gifts for the bulk of the remaining \$70.5 million required to complete all construction, but stated in its original application that additional bond funds would possibly be required to complete the projects, as is currently being requested. Of the 1999 bond issuance, \$11.4 million will be used for the construction of DGC while the remaining \$18.6 million will be used for the construction of the Business/Telecommunication Building and the Science Center.

Site and infrastructure work was delayed to May 2000, therefore, draw downs should now accelerate as work is progressing on schedule. Pepperdine intends to issue this August the proposed \$40 million of additional bonds in order to secure the balance of the financing for its projects and to lock in today's favorable interest rates. Pepperdine management fully expects to utilize all bond funds and complete the proposed construction projects by July 2003.

A description of the DGC project is as follows:

Drescher Graduate Campus\$71,700,000

The Drescher Graduate Campus will be a 50.4 acre addition to the existing developed portion of Pepperdine's Malibu campus. This new campus will feature the following additions:

The Academic Complex

- *The Executive Center / Academic Complex (19,249 square feet)* will command the most spectacular site of the entire Graduate Campus Project. Its lowest level will open to food service and provide access to a central auditorium and a planned executive classroom in a new, Graduate School of Business building. The Center's second level will open onto a planned central campus plaza, which will be surrounded by other academic buildings described as follows.
- *The Graduate School of Education and Psychology (7,033 square feet)* will accommodate 100 to 150 graduate students.
- *The Learning Center (12,386 square feet)* will contain library stacks, a central shared computer laboratory, a technology center, numerous study rooms, and staff offices. The center will be constructed to serve up to 650 graduate students.
- *The Graduate School of Business and Management (26,977 square feet)* will be constructed to accommodate up to 350 graduate students studying full time. It will consist of classrooms, faculty offices, administrative suites and a career development center, among other things.
- *The School of Public Policy (13,766 square feet)* will be constructed to accommodate up to 200 graduate students, and offer many of the same structural layout features of the Graduate School of Business.

Other Structures

- Ten single-family or duplex dwellings.
- Forty-eight faculty/staff condominiums.
- Student apartments for 300 beds.
- A church facility complex (to be financed with university funds).

▪ Underwriter's Discount/Cost of Issuance		<u>\$1,450,000</u>
Underwriters Discount	\$800,000	
Cost of Issuance	\$650,000	

Total.....\$73,150,000

Financing Structure:

- \$40,000,000 total par value.
- A1 rating based on borrower's own credit (no credit enhancement).
- Fixed rate, interest only for 30 years with bullet (balloon) maturity due in 2030.
- Negotiated public offering.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Pepperdine University Statement of Unrestricted Activities

(in 000's)

For the year ended July 31,

	1999	1998	1997
Revenues:			
Student revenues	\$ 145,547	\$ 136,560	\$ 128,053
Less: Financial aid	(36,365)	(33,548)	(31,753)
Net student revenues	109,182	103,012	96,300
Room and board	15,904	14,665	13,380
Private gifts and grants	9,265	6,410	8,799
Investment income	16,894	18,295	11,326
Net realized/unrealized gains	24,293	14,513	49,314
Sales and services	7,467	6,831	6,827
Other revenue	8,882	6,485	43,128
Total revenues	191,887	170,211	229,074
Expenses:			
Instruction and research	57,988	56,039	52,845
Academic support	18,540	19,153	17,816
Student service	19,757	18,890	16,820
Public service	2,687	2,782	3,346
Auxiliary enterprises	15,517	14,861	14,472
Management and general	31,538	30,755	26,805
Membership development	1,277	1,279	1,137
Fundraising	6,629	6,615	6,448
Total expenses	153,933	150,374	139,689
Excess of revenues over expenses	37,954	19,837	89,385
Other changes in unrestricted net assets	1,566	(836)	7,805
Total changes in unrestricted net assets	39,520	19,001	97,190
Unrestricted net assets beginning of year	382,882	363,881	266,691
Unrestricted net assets end of year	\$ 422,402	\$ 382,882	\$ 363,881

Pepperdine University
Statement of Financial Position

(in 000's)

	As of July 31,		
	1999	1998	1997
Assets:			
Cash	\$ 12,125	\$ 4,695	\$ 6,564
Student receivable, and student notes, net	28,878	28,075	25,090
Other accounts receivable	2,328	1,916	2,035
Contributions receivable	23,580	16,525	12,978
Prepaid expenses	1,914	2,100	1,401
Investments	438,739	366,949	358,719
Amounts held as trustee or agent	98,080	76,754	74,365
Interest in perpetual trust	18,197	18,880	19,421
Plant facilities	184,264	176,908	158,964
Total assets	\$ 808,105	\$ 692,802	\$ 659,537
 Liabilities and net assets:			
Accounts payable and accrued liabilities	\$ 11,215	\$ 10,752	\$ 9,229
Accrued salaries and wages	3,109	2,929	2,596
Student deposits and deferred revenues	4,105	5,067	4,414
US government funded student loans	11,434	12,251	11,526
Actuarial and other liabilities due under trust and agency agreements	58,822	47,123	43,465
CEFA obligations payable	114,905	68,952	70,392
Notes payable	10,450	11,314	12,723
Total liabilities	214,040	158,388	154,345
 Net assets:			
Unrestricted	422,402	382,882	363,881
Temporarily restricted	65,464	48,648	45,282
Permanently restricted	106,199	102,884	96,029
Total net assets	594,065	534,414	505,192
 Total liabilities and net assets	 \$ 808,105	 \$ 692,802	 \$ 659,537

Financial Ratios:

	Proforma		
	YE July 31, 1999		
Debt Service Coverage	3.13	3.71	2.83
Debt/Unrestricted Net Assets	0.37	0.29	0.23
Margin	20%	20%	11%
Expendable Net Assets of Operations	3.17	2.87	2.93

Financial Discussion:

Consistent operating performance derived from strong student demand

Though Pepperdine's operations are reliant on student charges, with close to 70% of its budget derived from student based charges, the University continues to post strong earnings each year resulting in significant margins currently near the 20% level. A growing student application and enrollment base, especially in the graduate programs, fuels positive operations and is reflective of Pepperdine's strong reputation and distinctive location on the Malibu coastline.

Substantial resource base and relatively new facilities provide significant operational flexibility.

Pepperdine's accumulated resources provide favorable support to operations. The University maintains over one-half billion of expendable net assets, with the majority of these assets (\$422 million) being unrestricted. These resources have been derived through a good mix of profitability, investment returns and fundraising. Moreover, the relatively young age of Pepperdine's physical plant (approximately 12 years average age) allows the University to enjoy low ongoing maintenance and capital replacement costs, thus further aiding operational stability.

Pepperdine is well positioned to manage the proposed new debt obligations

Management has projected the implications of this proposed debt and the expected revenues and expenses of the proposed facilities into its long range planning objectives. Projections provided to staff include balancing the operating budget of the new projects with operating reserves during construction. By fiscal 2006, as the new programs mature, their expected revenues are projected to cover all new operating costs including debt service on the bonds.

The University's current financial strength is sound and, as described above, it maintains sufficient unrestricted resources to cover any operating shortfalls and the proposed debt service. While this new phase of development will be challenging for the University, there appears to be sufficient financial resources available and operational flexibility to effectively manage the projects and this proposed new debt.

III. STUDENTS, COLLEGE COSTS AND FACULTY STATISTICS:

Applications and Admissions

The number of applications to Pepperdine University for freshmen (Fall term only) and transfers (Academic Year) have increased from 1995 levels by 44.2% for the 1999-00 fall semester. This allowed the University to increase its selectivity (thus student quality) as measured by the selectivity ratio which dropped by 39.2 points over a five year period to 35.7% for fall 1999. The Graduate Program, however, has remained fairly level in both number of applications, selectivity ratio and new enrollments.

Freshman and Transfer

Academic Year	Number of Apps	Accepted	Selectivity Ratio	New Enrollments
1995-96	4,344	3,253	74.9%	1,051
1996-97	4,271	3,349	78.4%	1,096
1997-98	5,254	2,944	56.0%	1,056
1998-99	5,842	2,782	47.6%	1,040
1999-00	6,264	2,238	35.7%	942

Graduate Programs

Academic Year	Number of Apps	Accepted	Selectivity Ratio	New Enrollments
1995-96	6,406	3,311	51.7%	1,932
1996-97	6,255	3,638	58.2%	1,862
1997-98	6,471	3,940	60.9%	2,091
1998-99	6,255	3,806	60.8%	1,971
1999-00	5,932	3,544	59.7%	1,949

Enrollments

Enrollment levels for both the undergraduate and graduate programs at Pepperdine University have increased slightly over the five years presented.

ENROLLMENTS *(Full-Time Equivalent)*

Fall Term	Undergraduate FTE	Graduate FTE	Total FTE
1995	2,784	3,620	6,404
1996	2,878	3,492	6,370
1997	2,844	3,662	6,506
1998	2,957	3,692	6,649
1999	2,897	3,961	6,858

Degrees

The number of degrees awarded in total has remained fairly level.

DEGREES

Academic Year	Bachelor	Graduate	Total
1995-96	850	1,559	2,409
1996-97	934	1,549	2,483
1997-98	799	1,570	2,369
1998-99	755	1,673	2,428
1999-00	921	1,669	2,590

Tuition and Fees

Total undergraduate tuition, fees, room and board increased an average of just under 5% a year. In 2000-01, total undergraduate costs increased by 4.25%.

UNDERGRADUATE TUITION, FEES, ROOM AND BOARD

Academic Year	Tuition and Fees	Room and Board	Total
1996-97	20,210	6,860	27,070
1997-98	21,170	6,980	28,150
1998-99	22,120	6,840	28,960
1999-00	23,070	7,010	30,080
2000-01	24,050	7,290	31,340

Faculty

Of the 256 full-time faculty in 1999-00, 148 are professors, 64 are associate professors, 39 are assistant professors and 5 are instructors. Approximately 98% of the faculty have obtained a Ph.D. or other terminal degree and approximately 77% of the full-time faculty are tenured. The current undergraduate student/faculty ratio is 12.3 to 1, and the University does not utilize teaching assistants.

FACULTY SUMMARY

Academic Year	Full-Time Faculty	Other Faculty	Total Headcount	Number Tenured	Total Faculty FTE
1995-96	230	409	639	180	430.6
1996-97	232	417	649	183	434.6
1997-98	240	417	657	185	442.8
1998-99	251	415	666	187	459.4
1999-00	256	413	669	198	466.2

IV. BACKGROUND:

General: Pepperdine University is an independent Christian University located in Malibu, California. The University was founded in 1937 by Mr. George Pepperdine, a Christian businessman. For the first thirty years of its existence, the institution was a small, mostly undergraduate college. In 1970, as the institution added graduate and professional schools, it became Pepperdine University. In 1972, the University opened its new campus at Malibu. The development of this campus and the establishment of Seaver College were made possible by a large gift from the Seaver Family. Donations have been and continue to be important in the construction of the buildings at Malibu and in supporting the curriculum. Educational services provided by the University are primarily funded by student tuition and fees, income from endowment investments, and donations.

The main campus includes Seaver College, the School of Law, the residential program segment of the Graziadio School of Business and Management and the School of Public Policy. The enrollment on the main campus is approximately 7,500 students. Student facilities include classrooms, libraries, housing, food services and athletics. Also, located on the main campus are a chapel, a theater, an art museum, administrative offices, and central plant operations.

In addition to the main campus, there are educational facilities in five southern California locations as well as abroad in London, Heidelberg and Florence. A facility in Buenos Aires will become operational this Fall 2000. The Graziadio School of Business and Management (GSBM) and the School of Education and Psychology offer professional and graduate classes at each of the southern California locations. Seaver College's International Program, the School of Law, and GSBM offer classes abroad.

Religious Certification: Because the University is affiliated with a religious denomination, it has provided a certification of compliance in accordance with the CEFA Act.

Administration: The University is governed by a self-perpetuating Board of Regents composed of 40 voting members. The Bylaws require that a majority of the actual number of Regents, a majority of the Executive Committee, the President and the Chairman of the Board of Regents shall be members of the Churches of Christ. All members of the Board are elected for three-year terms. Approximately one-third of the membership is elected annually.

The Board of Regents annually elects a Chairman, one or more Vice Chairmen, a Secretary, and an Assistant Secretary, each for terms of one year. In addition to an Executive Committee which acts for the board between meetings, there are seven standing committees, including a Committee on Finance and Investments. The full Board meets four times each year.

Accreditations: The University 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 was in 1993 and resulted in a reaffirmation of the University's accreditation. The next WASC visit is scheduled for October 2000. The School of Law is accredited by the American Bar Association and holds membership in the Association of American Law Schools. The George L. Graziadio School of Business and Management has received accreditation in April 2000 for admission to the American Assembly of Collegiate Schools of Business. Lastly, the Graduate School of Education and Psychology is accredited by the Board of Behavioral Science Examiners and the American Psychological Association, and has been approved by the California State Commission on Teacher Credentialing.

Academic Programs: *Seaver College* is the University'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 36 fields of study, and the master's degree in eight fields of study. Seaver College also offers full-time international programs in Germany, England, Italy, and Argentina.

The School of Law offers a full range of courses dealing with federal, state, and international law, leading to the Juris Doctor degree. The school offers the Juris Doctor/Master of Business Administration ("JD/MBA") degree as a joint four-year program with the George L. Graziadio School of Business and Management. The school also offers a Masters in Dispute Resolution through a joint program with the University's Institute for Dispute Resolution.

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 at its educational centers in Orange County, San Fernando Valley, Ventura County (Westlake Village), Long Beach, Plaza Center (Culver City) and on its Malibu Campus. The undergraduate program leads to a Bachelor of Science in Management.

The Graduate School of Education and Psychology offers masters and doctoral degrees in nine fields of study as well as instruction in initial teacher preparation, certain credential programs, and academic preparation for the Marriage, Family and Child Counseling license.

The School of Public Policy enrolled its first class in the Fall Semester of 1996. The school offers the masters degree for students who seek careers in business, the not for-profit sector, or government.

Competition: Pepperdine University faces competition from the nearby colleges of University of Southern California, University of California, Los Angeles, Pomona College, Los Angeles and other UC colleges.

V. OUTSTANDING DEBT:

<u>Issue Name:</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/00</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing			
Pepperdine University 1990	\$24,115,000	\$670,000	\$670,000
1993 CEFA Pool, Series A	25,550,000	24,520,000	24,520,000
Pepperdine University 1994	10,010,000	7,990,000	7,990,000
1995 CEFA Pool, Series A	20,940,000	19,080,000	19,080,000
Pepperdine University 1997	16,000,000	12,085,000	12,085,000
Pepperdine University 1999A/B	50,000,000	49,520,000	49,520,000
Proposed			
Pepperdine University 2000	40,000,000		40,000,000
Totals		\$113,865,000	\$153,865,000

VI. STAFF RECOMMENDATION: Staff recommends the Authority approve a resolution in an amount not to exceed \$40,000,000 for Pepperdine University, subject to the bonds having at least an "A" rating by a nationally recognized rating agency and meeting the standard bond issuance guidelines for "A" rated debt.