

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

<b>Applicant:</b> Chapman University ("the University") Orange, CA Orange County <b>Project Site:</b> Orange, CA <b>Facility Type:</b> Private University <b>Accreditation:</b> Western Association of Schools and Colleges (See page 10 for other accreditations).	<b>Amount Requested:</b> \$18,000,000 <b>Date Requested:</b> July 27, 2000 <b>Requested Loan Term:</b> 30 years <b>Resolution Number:</b> 182
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**Purpose of Financing:** To construct and acquire residential facilities, and to construct a parking structure, to accommodate a substantial growth in enrollments. The University will also refund mortgages on acquisitions of nearby residences, with rates ranging between 7.3% and 9.5% with variable rate debt with an initial rate of approximately 3.4%.

<b>Type of Issue:</b>	Public offering, variable interest rate
<b>Credit Enhancement:</b>	Direct pay letter of credit
<b>Expected Rating:</b>	Aa3/P1 or VMIG-1 (Moody's) with Allied Irish Bank LOC
<b>Senior Underwriter:</b>	Banc of America Securities LLC
<b>Bond Counsel:</b>	Orrick, Herrington and Sutcliffe LLP

**Financial Overview:** Chapman University has increased its net assets while managing rapid expansion, in part by its demonstrated ability to secure gifts and grants to support its programs and large investment earnings. The University also receives substantial support from its college extension programs located throughout the Western United States which adds operational stability. The University posted improving net income over our review period, but this is mostly due to extraordinary revenues which bolstered the income statement. Of note, increased enrollment caused revenues to grow over this period, but revenues were outpaced by a growth in instructional expenses. Expenses appear to have moderated and debt service coverage remains good.

<b>Sources of Revenues (\$000)- FYE 5-31-99: (Unrestricted Funds)</b>	<u>Amount</u>	<u>Percent</u>
Tuition & fees	\$77,728	73%
Net assets released from restrictions	14,016	13
Auxiliary enterprises	9,198	9
Private gifts, grants, & bequests	2,326	2
Investment income	1,836	1
Other sources	<u>2,034</u>	<u>2</u>
Total revenue	<u>\$107,138</u>	<u>100%</u>

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
Bond Proceeds	\$18,000,000	Construct residence hall and parking	\$12,500,000
Interest earnings*	370,434	Acquire residential housing	4,740,000
		Capitalized interest	581,795
		Costs of Issuance	<u>548,639</u>
Total Sources	<u>\$18,370,434</u>	Total Uses	<u>\$18,370,434</u>

\* Equals interest earnings on invested bond proceeds over the construction period

**Staff Recommendation:** Staff recommends the Authority approve a resolution in an amount not to exceed \$18,000,000 for Chapman University, subject to a minimum "A" rating by a nationally recognized rating agency with the letter of credit or subject to a minimum "Baa" rating without credit enhancement and meeting the standard bond issuance provisions for "Baa" rated debt.

**STAFF SUMMARY AND RECOMMENDATION**

**Chapman University ("the University")**

July 27, 2000  
Resolution Number: 182

**I. PURPOSE OF FINANCING:**

Chapman is finalizing plans for student and faculty housing projects and a parking structure on its main campus to meet the demand created by a 24% increase in undergraduate enrollments in the last five years. Chapman also intends to refund mortgages for homes purchased adjoining the campus and to purchase additional homes. Management believes that these facilities will not only pay for themselves, but will enhance University life by shifting the focus away from acceptance of transfer students toward attracting freshmen who will attend an entire four year program.

Management projects that the residences to be constructed will generate revenue to pay for its related debt service at 40% occupancy. Existing residences are currently reported to be at 99% capacity.

***Construct 300 bed residence hall..... \$7,000,000***

Bond proceeds will be used to build a 300 bed residence hall on University land currently used as a parking lot. The project was awarded a permit by the City of Orange and is anticipated to begin construction this summer and to be completed by early summer of 2001, in time to accommodate the demand for the 2001 fall term.

***Construct 700 space parking structure..... 5,500,000***

In addition to the spaces that would be lost from construction of the residence hall, the University has identified a need for additional on-campus parking. Although a City of Orange design review committee has recommended approval, the city's planning commission has deferred consideration to its August meeting. If the project is approved, it is anticipated to begin construction in November and be completed in early summer of 2001.

If the project is not approved, an option is to demolish an old, University-owned commercial building and construct an academic and administrative facility (including a sound stage) for the School of Film and Television plus 300 surface parking spaces. This \$5.5 million would be used toward the total \$8 million cost, with the balance provided from donors.

*Acquire adjoining residences.....4,740,000*

The University intends to continue its practice of purchasing homes for students, faculty and staff in an area adjoining the Orange campus called "the acquisition zone". These houses are also acquired to serve as a buffer between the University and the closely surrounding community.

1. Refunding of mortgages..... 2,740,000

The University will refund mortgage debt incurred in purchasing 9 homes for students, faculty and staff in the acquisition zone as well as a house for the University president. The refunding will help the University by consolidating payments and by replacing bank loans with rates ranging between 7.3% and 9.5% with variable rate debt with an initial rate of approximately 3.4%.

2. Future purchases of residences..... 1,580,000

The University plans further acquisitions of residences in the acquisition zone as they become available for sale. By Board policy, such purchases should be at appraised value when possible, but not to exceed 110% of appraised value.

3. Reimbursement ..... 420,000

The University has recently purchased two houses within the acquisition zone. The houses were purchased with operating funds in contemplation of reimbursement with funds from this transaction.

*Financing costs ..... 1,130,434*

Underwriter's Discount .....	\$117,000
LOC Fees .....	205,502
Capitalized Interest.....	581,795
Other Costs of Issuance .....	226,137

*Total Uses of Funds..... \$18,370,434*

**Financing Structure:**

- General obligation pledge
- \$18,000,000 total par value
- 30 year maturity, interest
- Variable rate, public offering
- Irrevocable direct pay letter of credit

## II. FINANCIAL STATEMENTS AND ANALYSIS:

### Chapman University

#### Income Statement Unrestricted (000's)

	Fiscal Year Ended May 31,		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
<b>Revenue, gains, and other support</b>			
Net tuition and fees	\$ 77,728	\$ 73,005	\$ 67,067
Investment earnings	1,836	10,346	6,209
Private gifts, grants and bequests	2,326	2,857	2,043
Auxiliary enterprises	9,198	9,210	8,536
Other sources	2,034	2,064	1,329
Net assets released from restrictions	353	1,484	967
Total revenue	93,475	98,966	86,151
<b>Expenses</b>			
Instruction	44,071	40,154	36,836
Academic support	11,384	11,239	10,741
Student services	10,852	10,966	8,892
General institution support	20,893	19,694	20,034
Auxiliary enterprises	5,898	6,308	6,224
Total expenses	93,098	88,361	82,727
Increase in unrestricted net assets before non-operating activity	377	10,605	3,424
<b>Non-operating activity</b>			
Building gifts released from restriction	13,663		
Extraordinary item-loss on extinguishment of debt	-	-	(893)
Other non-operating activity	87	(34)	(241)
Total non-operating activity	13,750	(34)	(1,134)
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<b>14,127</b>	<b>10,571</b>	<b>2,290</b>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	70,472	59,901	57,611
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 84,599	\$ 70,472	\$ 59,901

**Chapman University**  
**Statement of Financial Position (000's)**

As of May 31

	1999	1998	1997
<b>ASSETS:</b>			
Current assets:			
Cash and cash equivalents	\$ 819	\$ 1,971	\$ 3,565
Investments	15,927	34,605	4,133
Accounts receivable	5,898	4,053	4,392
Current portion of contributions receivable	1,654	1,622	2,039
Current portion of notes receivable	855	807	683
Other current assets	1,134	728	814
<b>Total current assets</b>	<b>26,287</b>	<b>43,786</b>	<b>15,626</b>
Notes receivable	4,861	4,855	4,620
Contributions receivable, less current portion	9,999	5,737	6,367
Long-term investments	68,847	71,432	93,811
Plant assets	103,812	69,381	50,902
Other real property	8,883	2,178	1,673
Other long-term assets	2,023	1,962	1,747
<b>TOTAL ASSETS</b>	<b>\$ 224,712</b>	<b>\$ 199,331</b>	<b>\$ 174,746</b>
<b>LIABILITIES AND NET ASSETS:</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 12,131	\$ 13,000	\$ 9,438
Deferred revenues and student deposits	5,536	4,398	5,476
Current portion of bonds and notes payable	3,591	3,063	3,052
Current portion of annuities payable	704	574	634
Other current liabilities	1,825	2,009	177
<b>Total current liabilities</b>	<b>23,787</b>	<b>23,044</b>	<b>18,777</b>
Bonds and notes payable	51,923	40,753	43,089
Annuities payable	5,606	4,712	5,005
Refundable loan programs	1,815	1,702	1,593
Other long-term liabilities	4,459	3,778	423
<b>Total long-term liabilities</b>	<b>63,803</b>	<b>50,945</b>	<b>50,110</b>
<b>TOTAL LIABILITIES</b>	<b>87,590</b>	<b>73,989</b>	<b>68,887</b>
Net assets:			
Unrestricted	84,599	70,472	59,901
Temporarily restricted	20,029	24,415	17,553
Permanently Restricted	32,494	30,455	28,405
<b>TOTAL NET ASSETS</b>	<b>137,122</b>	<b>125,342</b>	<b>105,859</b>
<b>Total liabilities and net assets</b>	<b>\$ 224,712</b>	<b>\$ 199,331</b>	<b>\$ 174,746</b>

**Financial Ratios:**

	Proforma (a) YE May 31, 1999			
Debt service coverage	3.24	3.79	3.00	2.27
Debt/expendable net assets	0.70	0.53	0.46	0.61
Expendable assets/operations		1.12	1.07	0.91
Margin		13%	11%	3%

(a) Recalculates 1999 audited results to include the payment of this proposed financing.

## Financial Discussion:

Chapman University has increased its net assets while managing rapid expansion, in part by its demonstrated ability to secure gifts and grants to support its programs and large investment earnings. The University also receives substantial support from its college extension programs located throughout the Western United States which adds operational stability.

Chapman University's strength is in its balance sheet with total net assets over \$137 million, including over \$85 million in cash and investments. The University has shown a sizeable increase in net assets of \$25 million or 42% between 1997 and 1999 which has led to increasing operational flexibility as measured by its improving expendable net assets to operations ratio.

This increase in net assets was due in part to a successful capital campaign started in early 1998 which resulted in the \$13.6 million that were released from restrictions within the year ended May 1999. Further aiding this increase were large investment earnings totaling \$6.2 million and \$10.3 million in 1997 and 1998 respectively. The University also maintains a successful general fundraising program as evidenced by its over \$2 million in annual receipts of private gifts, grants, and bequests, and its approximate \$2 million per year growth in its permanently restricted net assets.

Further strengthening the University's position is the record \$32 million (book value) it raised from its capital campaign during the fiscal year ended May 2000, according to figures presented by management.

Another credit strength of Chapman is its College of Lifelong Learning, which offers undergraduate and graduate programs at numerous locations throughout the Western United States. This programmatic and geographic variety provides the University with a diversified revenue flow, and greatly adds to the University's operating stability.

**The University posted improving net income over our review period, but this is mostly due to extraordinary revenues which bolstered the income statement. Of note, increased enrollment caused revenues to grow over this period, but revenues were outpaced by a growth in instructional expenses. Expenses appear to have moderated and debt service coverage remains good.**

The University posted improving increases in net income over our review period, particularly for 1998 and 1999 due to certain extraordinary items. For example, The \$10.6 million net income for 1998 was mostly due to a significant \$10.3 million in investment earnings which included earnings from approximately \$27 million of unexpended construction bond proceeds, accounting for 25% of the investment portfolio.<sup>1</sup> Moreover, the \$14.1 million net income for 1999 was largely related to the release of \$13.6 million in building gift contributions described earlier.

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<sup>1</sup> Investment earnings dropped dramatically in 1999, in part due to market fluctuations, but also due to the expenditures of previously invested construction funds.

Over the last five years, Chapman posted a 24% increase in its undergraduate enrollment following the completion of facilities which approximately doubled academic space. This growth in enrollment, combined with increases in tuition and fees, fueled a good 8.5% growth in total revenue. Overall expenses, however, increased 12.5%, with the largest increase related to instruction expense. Instruction expense grew sharply as the University increased its total number of tenured and other full-time faculty, in part, to respond to this new enrollment growth, but to also raise scholarship standards per its accreditation review. Management states that it doesn't anticipate any further significant growth in its instructional expense in the near future given that the University has achieved its targeted level of faculty. Staff's review of preliminary 2000 financial results appear to support this with expenses increasing a minimal 4% over 1999 expenses, versus a 7% increase in revenues.

As an offset to Chapman's increased expense structure, enrollments are expected to grow even more substantially in the next few years given Chapman's greater capacity. The University appears positioned to achieve this growth given a 74% increase in its applications over the last five years and a relatively low 62% selectivity ratio which provides significant flexibility to grow the enrollment base.

Largely through fundraising efforts and significant investment earnings, Chapman has managed to build its debt service coverage to a good 3.79x. With the addition of the proposed issue, long term debt will be \$74 million, resulting in proforma debt service coverage slightly declining to 3.24x.

### III. STUDENTS, COLLEGE COSTS AND FACULTY STATISTICS:

#### *Applicant Pool*

Freshmen/Transfer applications have exhibited impressive growth since 1995, especially in 1998, as the new business and technology building opened. Graduate applications grew at a strong pace as well. Law school applications increased nearly 60% in 1999, the year of the new law school building's completion. Selectivity for undergraduate and law school students have improved considerably, while selectivity for graduate students has remained fairly static. Similar statistics are not available for the Lifelong Learning campuses.

**Freshman and Transfers-Orange Campus (Combined)**

Academic Year	Number of Applications	Offered Admission	Selectivity Ratio	New Enrollments	Matriculation Ratio
1995-96	1,914	1,499	78%	746	50%
1996-97	2,082	1,596	77%	763	48%
1997-98	2,341	1,783	76%	860	48%
1998-99	2,997	1,738	58%	783	45%
1999-00	3,328	2,062	62%	879	43%

### Graduates-Orange Campus

Academic Year	Number of Applications	Offered Admission	Selectivity Ratio	New Enrollments	Matriculation Ratio
1995-96	651	449	69%	389	87%
1996-97	744	535	72%	444	83%
1997-98	769	584	76%	445	76%
1998-99	772	574	74%	397	69%
1999-00	827	608	74%	419	69%

### Law School \*

Academic Year	Number of Applications	Offered Admission	Selectivity Ratio	New Enrollments	Matriculation Ratio
1995-96	374	298	80%	208	70%
1996-97	313	200	64%	75	38%
1997-98	269	125	46%	38	30%
1998-99	382	140	37%	62	44%
1999-00	607	266	32%	87	33%

\* The law school was established in the 1995-96 academic year.

### *Enrollments*

Undergraduate enrollments grew rapidly at the Orange Campus, increasing 24% in five years. Other than the law school program, initiated in 1995, other enrollments have remained fairly constant, producing an overall 10% since 1995. Lifelong learning FTE enrollment as a percentage of the total University enrollment, decreased slightly in this period, from 47.3% to 43.5%. Considering the recent increase in facility space available for academic use, there appears to be considerable room to expand enrollments substantially.

### FALL TERM FTE ENROLLMENT

<u>Fall Term</u>	<u>ORANGE CAMPUS</u>				<u>LIFELONG LEARNING</u>			<u>Entire University</u>
	<u>Undergrad</u>	<u>Graduate</u>	<u>Law</u>	<u>Total</u>	<u>Undergrad</u>	<u>Graduate</u>	<u>Total</u>	
Fall 1995	2,100	763	232	3,095	828	1,954	2,782	5,882
Fall 1996	2,201	811	282	3,294	724	2,083	2,807	6,101
Fall 1997	2,301	893	199	3,393	759	2,382	3,141	6,534
Fall 1998	2,389	848	190	3,427	790	2,191	2,981	6,408
Fall 1999	2,600	864	182	3,646	893	1,919	2,812	6,458



## Degrees Conferred

Total number of degrees conferred at the Orange campus remained fairly stable during the last five academic years. There was a slight decline in degrees conferred for the 1996-97 academic year.

### Degrees Conferred

Academic Year	ORANGE CAMPUS*		LIFELONG LEARNING		LAW SCHOOL*	TOTAL		
	Undergrad	Graduate	Undergrad	Graduate		Undergrad	Graduate	Total
1995-96	408	146	551	796		959	942	1,901
1996-97	469	190	489	623		958	907	1,865
1997-98	366	141	422	666	63	788	870	1,658
1998-99	435	199	377	548	82	812	829	1,641
1999-00	421	184	**	**	36	**	**	**

\* The first graduating class for the school of law was in 1998.

\*\* The University has not finished compiling degree statistics for year 2000 Lifelong Learning graduates.

## Tuition and Fees

Over the past five years, the University has mirrored the national trend of increased college costs. In particular, undergraduate tuition at the Orange campus grew an average 3.4% per year, while Room and board at the campus grew by 4.2% per year.. Tuition for graduate programs grew approximately 6% per year and the cost of attending both the law school and College of Lifelong Learning programs grew an average of 5% per year.

Academic Year	UNDERGRADUATE		GRADUATE		(4)LAW SCHOOL		(5)CLL
	Tuition and Fees	(1)Room & Board	(2)Physical Therapy	(3)All Other Programs	3-Year Program	4-Year Programs	Tuition
1995-96	17,902	6,220	23,100	6,624	17,400	13,340	4,770
1996-97	18,520	6,454	25,850	6,912	18,000	13,800	4,976
1997-98	19,064	6,806	27,225	7,542	18,000	13,800	5,130
1998-99	19,724	7,044	28,325	7,845	18,750	14,735	5,490
1999-00	20,500	7,326	29,150	8,374	21,500	15,525	5,779

(1) Based on double-occupancy.

(2) Based on 55 units or half of the program requirements.

(3) Excludes the Executive MBA Program.

(4) Tuition, fees, and room and board charges are based on an average of 30 units per year for the 3-year program, and an average of 23 units per year for the 4-year program.

(5) Calculated using an average of 30 units for undergraduate tuition and an average of 22.5 units for graduate tuition.

## *Faculty and Staff*

The total number of faculty has remained fairly constant over the last five academic years, but full-time faculty has increased more rapidly than enrollment growth, most particularly among non-tenured staff, which has increased by 47%, but also among tenured staff, 21%. Full-time faculty comprised 40% of total FTE in 1999, compared to 29% in 1995.

### FACULTY

Academic Year	Tenured Full-Time	Other Full-Time	Part-Time FTE	Total FTE
1995-96	71	113	456	640
1996-97	77	139	453	669
1997-98	78	149	310	537
1998-99	84	159	454	697
1999-00	86	166	371	623

## IV. BACKGROUND:

### General:

Chapman University is a non-profit, coeducational university originally founded as Hesperian College in 1861. The college merged with the California Christian College in 1934 and was renamed in recognition of C.C. Chapman, a pioneering Orange County church leader, real estate investor, and rancher. In 1991, the college officially changed its name to Chapman University to recognize its breadth of programs and variety of degrees. In August 1995, Chapman held the first classes of its newly established law school. The University's 42-acre main campus is located in Orange, California, approximately 35 miles southeast of Los Angeles.

With the recent additions since 1998 of the Beckman Business and Technology Hall, the School of Law Building, and the Student Administrative Services building, Chapman's main campus has nearly doubled its academic area.

Chapman also has 29 other off-campus Academic Centers for adult students throughout California.

**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 Board of Trustees comprised of 42 elected members, one-third of whom are elected annually for three year terms, and sixteen ex-officio members, which include the President of the University as well as the present and immediate past presidents of the Alumni Board. The Executive Committee of the Board acts on the Board's behalf between meetings. The Board has twelve standing committees, including Finance, Budget and Audit Committee. The Board normally meets five times a year.

### **Accreditations and Affiliations:**

The University is accredited by and is a member of the Western Association of Schools and Colleges. The University's Teacher Training and Credential Programs are approved by the California Commission on Teacher Credentialing (CTC). The American Physical Therapy Association professionally accredits the University's physical therapy department. The National Association of Schools of Music accredits the School of Music, and the Institute for Food Technology accredits the Food Services Department for Food Technology. The School of Law has received provisional approval by the American Bar Association.

The University is also a member of the Independent Colleges of Southern California, the College Entrance Examination Board, the Western College Association, the Association of Independent California Colleges and Universities, the American Council on Education, the American Association of Colleges for Teacher Education, and the Division of Higher Education of the Christian Church.

WASC, in its 1998 reaffirmation of the University's accreditation, required significant progress on several concerns before accreditation will be continued at its next review date of October 2002. Among the concerns noted were that greater attention be paid to the quality of faculty scholarship and library resources as the number of graduate and Academic Center programs has grown in the last decade. As noted in the WASC report, steps had already been taken to address this, including a moratorium on new programs and a reduction in the number of Academic Centers. Since that time, management points to additional actions taken to address these concerns. A new provost, as well as a new library director, have been hired this year. Additionally, the University has increased the number of full-time teaching staff in graduate and Academic Center programs.

In addition, management states that much of the external campus courses are part of a teacher preparatory program and points to an accreditation report issued in April 2000 by the State Commission on Teacher Credentialing which notes improvements in program quality and in integration with the main campus through monthly meetings at which faculty throughout the state, in each teaching discipline, discuss best practices, review course requirements, and conduct faculty development, and the establishment of a Virtual Library.

### **Academic Programs:**

The University is organized into eight schools: The Agyros School of Business and Economics, the School of Film and Television, the School of Communication Arts, the School of Education, the School of Music, the Wilkinson College of Letters and Sciences, the School of Law, and the College of Lifelong Learning.

The College of Lifelong Learning program offers adult degree and non-degree courses at off-campus facilities known as Lifelong Learning Academic Centers and Learning Sites. There are presently 15 Academic Centers and 14 Learning Sites (mostly located on military bases) located in California plus 6 in Arizona and Washington.

**Competition:**

Chapman University is the largest private university in Orange County. Nearby comparable institutions include Loyola Marymount, the University of Southern California, the University of San Diego and the University of California, Irvine. The University offers a variety of undergraduate and graduate programs at its main campus and at numerous locations throughout the Western United States. The University points to its film and television production facilities and its food science and nutrition programs as particular strengths and notes that it is ranked as a top-tier comprehensive university by U.S. News and World Report.

**V. OUTSTANDING DEBT:**

Chapman University currently has four series of outstanding bonds issued through this Authority totaling \$47.2 million as of May 31, 1999 and total long-term debt totaling \$55.5 million. With this proposed financing, Chapman University's new outstanding balance will be \$73.5 million.

<u>Bond Issue Name: Series</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 5/31/99</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<b>Existing:</b>			
CEFA Revenue Bonds, 1991	\$17,780,000	\$2,708,936	\$ 2,708,936
CEFA Revenue Bonds, 1996	40,000,000	34,953,664	34,953,664
CEFA Equipment Note, 99A & B	9,552,944	9,552,944	9,552,944
Other bonds and notes		8,298,908	8,298,908
<b>Proposed:</b>			
CEFA Revenue Bonds, 2000			18,000,000
Total Outstanding Authority Debt for Chapman University	<u>\$67,332,944</u>	<u>\$55,514,452</u>	<u>\$73,514,452</u>

**VI. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution in an amount not to exceed \$18,000,000 for Chapman University, subject to a minimum "A" rating by a nationally recognized rating agency with the letter of credit or subject to a minimum "Baa" rating without credit enhancement and meeting the standard bond issuance provisions for "Baa" rated debt.