

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
BOND FINANCING PROGRAM**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	Pepperdine University (“University”) Malibu, California Los Angeles County	<b>Amount Requested:</b>	\$45,000,000
		<b>Loan Term:</b>	30 Years
<b>Facility Type:</b>	Private University	<b>Date Requested:</b>	February 27, 2003
<b>Accreditations:</b>	Western Association of Schools and Colleges and American Bar Association		
<b>Use of Bond Proceeds:</b> Bond proceeds will be used to refund the outstanding CEFA Revenue Bonds for Series 1993A, Series 1994, and Series 1999B.			
<b>Type of Issue:</b>	Public offering, fixed rate		
<b>Credit Enhancement:</b>	None		
<b>Expected Rating:</b>	A1 (Moody’s)		
<b>Senior Underwriter:</b>	Prager, Sealy & Company LLC		
<b>Bond Counsel:</b>	Orrick Herrington & Sutcliffe LLP		
<b>Financial Overview:</b> The University’s recent operations have exhibited consistent moderate levels of operating profits supported by a growing revenue base from net tuition and fees, donations/gifts and investments. The University has an extremely strong balance sheet with moderate debt and significant financial resources.			
<b>Sources of Revenue (000s) (FYE 7/31/02)</b>			
	<u>Amount</u>	<u>Percent of Total</u>	
Student revenues (net)	\$124,187	64%	
Endowment support	17,961	9%	
Room and board	16,990	9%	
Private gifts and grants	12,267	6%	
Sales and services	7,943	4%	
Net assets released from restriction	6,222	3%	
Other revenue	5,884	3%	
U.S. Government Grants	<u>2,876</u>	<u>2%</u>	
Total	<u>\$194,330</u>	<u>100%</u>	
<b>Sources of Funds:</b>			
Bond Proceeds	\$45,000,000	<b>Uses of Funds:</b>	
Original Issue Discount	(1,219,000)	Current refund 1993A bonds	\$24,578,500
		Advance refunding 1994 & 1999B	18,525,000
		Financing costs	<u>677,500</u>
Total Sources	<u>\$43,781,000</u>	Total Uses	<u>\$43,781,000</u>
<b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.			
<b>Recommendation:</b> Staff recommends the Authority approve a resolution in an amount not to exceed \$45,000,000 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.			

**STAFF SUMMARY AND RECOMMENDATION**

**Pepperdine University (the “University”)**

February 27, 2003

Final Resolution Number: 207

- I. PURPOSE OF FINANCING:** This refinancing of existing debt will enable Pepperdine University to take advantage of historical low fixed interest rates by locking in these rates for its long-term capital financing needs.

**Current refund Series 1993A bonds.....\$24,578,500**

The 1993A bonds have coupons ranging 4.90% to 5.50% (term bond in 2019), with an average remaining coupon of 5.48%. The original bonds were issued in the amount of \$25.55 million for a dormitory and a refinancing of the University’s Series 1990 Issue. As of January 31, 2003, the outstanding balance is \$23,530,000. These bonds are currently callable at 102% of the par amount.

The proposed term bonds will have a final maturity ranging from 2019 to 2033. If bonds are issued with a final maturity of 2019, the expected coupon rate is approximately 4.70%. This refunding would result in a net present value savings of \$1.4 million, representing a savings rate of over 5% of the amount outstanding. Alternatively, if the University wishes to take advantage of the low fixed interest rates and structure the proposed financing with a bullet maturity in 2033 or earlier. There would be no net present value savings, with an expected coupon rate of 5.05%.

**Advance refund Series 1994 bonds ..... 7,200,000**

The 1994 bonds have coupon rates of 5.25% to 6.10% (term 2014) with an average remaining coupon rate of 6.0%. The bonds were originally used for the refinancing of an outstanding taxable note and equipment acquisition. As of January 31, 2003, the outstanding balance is \$7,180,000. These bonds are callable in March 2004 at 102% of the par amount.

If the University were to issue the proposed bonds with a matched-maturity refunding with a final maturity of 2019, the net present value savings would be \$441,000, representing a savings rate in excess of 6%. Alternatively, the University may wish to take advantage of the low fixed interest rates and structure the proposed financing with a bullet maturity in 2033 or earlier. There would be no net present value savings, with an expected coupon rate of 5.05%.

**Current refund Series 1999B Variable rate bonds (estimated)...** 11,325,000

The variable rate bonds reset weekly, with the current interest rate of 1.00%. These bonds were originally issued to finance the purchase of equipment. The University wishes to reallocate their fixed/variable interest rate bond portfolio by decreasing its variable rate allocation.

**Financing Costs** ..... 677,500

Underwriters Discount .....\$427,500

Cost of Issuance ..... 250,000

**Total** ..... \$43,781,000

**Financing Structure:**

- \$45,000,000 total par value
- General obligation pledge
- A1 Moody's Rating
- Fixed interest rate
- Either a bullet maturity in 2033 or earlier or serial and term bonds maturing in 2019
- Negotiated public offering
- Up to 30.5 year Maturity

## II. FINANCIAL STATEMENTS AND ANALYSIS:

**Pepperdine University**  
**Statement of Activities**  
(In 000's)  
(Unrestricted)

	<b>For the Year Ended July 31,</b>		
	2002	2001	2000
<b>REVENUES</b>			
Net Tuition and fees	\$ 124,187	\$ 117,313	\$ 113,624
Room and board	16,990	17,488	15,536
Private gifts and grants	12,267	7,095	6,320
Endowment support	17,961	13,736	-
Investment Income	-	-	8,655
U.S. gov. grants	2,876	3,065	2,606
Sales and services	7,943	7,681	7,489
Other revenue	5,884	4,298	4,023
Net assets released from restrictions	6,222	22,902	15,933
Total revenues, gains, and other support	194,330	193,578	174,186
<b>EXPENSES</b>			
Instruction and research	68,654	65,530	61,481
Academic support	23,598	21,538	21,446
Student services	23,929	21,890	20,671
Public service	2,744	3,182	2,596
Auxiliary enterprises	18,813	17,292	15,834
Management and general	44,341	39,334	31,942
Membership development	1,585	1,400	1,326
Fundraising	8,230	7,321	7,352
Total expenses	191,894	177,487	162,648
<b>Change in unrestricted net assets before non-operating items</b>	<b>2,436</b>	<b>16,091</b>	<b>11,538</b>
<b>NON-OPERATING REVENUES AND EXPENSES</b>			
Appropriations from endowment	(11,589)	(5,384)	-
Dividends	2,242	3,115	-
Interest	4,100	6,625	-
Gains/(losses) on investments	(41,320)	30,234	51,880
Other	103	(2,843)	(2,051)
Total non operating revenues and expenses	(46,464)	31,747	49,829
<b>Change in net assets</b>	<b>(44,028)</b>	<b>47,838</b>	<b>61,367</b>
Net assets, beginning of year	531,607	483,769	422,402
Net assets, end of year	\$ 487,579	\$ 531,607	\$ 483,769

**Pepperdine University**  
**Statement of Financial Position**  
(In 000's)

	<b>As of July 31,</b>		
	2002	2001	2000
<b>Assets</b>			
Cash/cash equivalents	\$ 13,797	\$ 14,278	\$ 6,941
Student receivables	5,870	7,127	7,466
Other account receivable	3,245	2,502	2,702
Student notes receivable	24,697	24,145	23,129
Contributions receivable	22,360	25,053	24,592
Prepaid expenses and other assets	2,796	3,082	2,652
Investments	571,434	573,537	519,955
Funds held as trustee or agent	76,287	80,336	85,113
Interest in perpetual trust			17,559
Property and equipment, net	253,557	229,128	195,246
<b>Total Assets</b>	<b>\$ 974,043</b>	<b>\$ 959,188</b>	<b>\$ 885,355</b>
<b>Liabilities</b>			
Accounts payable/accrued expenses	\$ 16,894	\$ 15,882	\$ 13,912
Accrued salaries and wages	2,671	3,727	3,381
Student deposits and deferred revenue	7,236	5,506	5,867
U.S. gov. funded student loans	13,740	12,251	11,983
Trust and agency obligations	53,359	54,270	55,859
Long term obligations	206,523	155,667	120,696
<b>Total Liabilities</b>	<b>300,423</b>	<b>247,303</b>	<b>211,698</b>
<b>Net Assets</b>			
Unrestricted	487,579	531,607	483,769
Temporarily Restricted	62,278	62,107	76,742
Permanently Restricted	123,763	118,171	113,146
<b>Total Net Assets</b>	<b>673,620</b>	<b>711,885</b>	<b>673,657</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 974,043</b>	<b>\$ 959,188</b>	<b>\$ 885,355</b>

Financial Ratios:

	Proforma FYE July 31, 2002			
Debt service coverage (x)	-1.83 (a)/(b)	-2.15	5.43	6.19
Debt/Unrestricted net assets (x)	0.43	0.42	0.29	0.25
Margin (%)		1.25	8.31	6.62
Current Ratio (x)		1.79	1.96	1.92

(a) Recalculates 2002 audited results to include the payment of this proposed financing.

(b) Using 2002 operating results results in 1.25x debt service coverage

## **Financial Discussion:**

**The University's recent operations have exhibited moderate operating profits supported by a growing revenue base from net tuition and fees, donations/gifts and investments.**

The University has exhibited solid net tuition and fee growth over the review period. Revenues mainly consist of tuition, donation/gifts and investment income providing the University with liquidity and flexibility. Tuition rates have increased nearly 5% during the review period due to strong demand for the University's programs. The University expects the new Drescher Graduate Campus to provide continued tuition revenue increases.

The University's small operating gains were offset by \$46 million in non-operating losses comprised mostly from investment losses and appropriation for endowment support. The losses on investments were mostly due to a decline in the equity value of the University's stock portfolio and venture capital partnerships. The University has over \$500 million invested in a diversified mix of equitable securities, fixed income instruments and alternative investments. Consequently, the loss of \$41 million in investments approximates 8% of the total portfolio value.

The losses from the "appropriations from endowment" relate to the difference between the University's approved spending rate of 5% of a five-year moving average of market value. Using a total rate of return approach, the University can distribute accumulated realized gains to supplement the payout during years of negative market performance. The University withdrew over \$11 million from the investment pool's reserves to meet the 5% payout since actual dividends and interest from investments accounted for less than 1.2%. For example, in fiscal year 2002 the approved spending rate was \$17.9 million (see "endowment support" on the income statement) while the actual dividends and interest earned was on \$6.4 million, resulting in an \$11.5 million loss for appropriations from endowment.

**The University has an extremely strong balance sheet with moderate debt and significant financial resources.**

The University's current financial strength is sound. It maintains over \$670 million in total net assets, with the majority of these assets (\$487 million) being unrestricted. In fiscal year 2002, its operating debt service coverage ratio was 1.37x. With this proposed financing the debt service coverage ratio, the proforma operating debt service coverage will be approximately 1.25x.

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

#### *Applications and Admissions*

The following tables set forth applications, offers of admissions and acceptances for the University's undergraduate and graduate programs for the academic years shown.

#### *Undergraduate Freshmen*

Academic Year	Applications	Admissions	Acceptances
2002-03	5,503	2,037	805
2001-02	6,147	1,691	636
2000-01	5,393	1,952	681
1999-00	4,862	1,788	566
1998-99	4,818	2,214	690

#### *Undergraduate Transfers\**

Academic Year	Applications	Admissions	Acceptances
2002-03	N/A	N/A	N/A
2001-02	752	356	234
2000-01	750	391	257
1999-00	1,095	447	282
1998-99	829	459	307

\*Includes all undergraduate in the George L. Graziadio School of Business and Management (GSBM) program. GSBM statistics are based on full year's experience.

#### *Graduate Students*

Academic Year	Applications	Admissions	Acceptances
2002-03	N/A	N/A	N/A
2001-02	6,603	3,710	2,076
2000-01	6,017	3,610	1,845
1999-00	5,932	3,544	1,949
1998-99	6,255	3,806	1,971

**Enrollments**

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

**ENROLLMENTS (FALL TERM)**

Fall Term	Undergraduate	Graduate	Total	Full-Time Equivalent
2002-03	3,375	4,699	8,074	7,236
2001-02	3,126	4,511	7,637	6,823
2000-01	3,240	4,468	7,708	6,726
1999-00	3,213	4,611	7,824	6,858
1998-99	3,256	4,447	7,703	6,649

**Degrees**

The number of degrees awarded has also remained steady.

**DEGREES AWARDED**

Academic Year	Undergraduate	Graduate	Total
2002-03	N/A	N/A	N/A
2001-02	859	1,720	2,579
2000-01	896	1,811	2,707
1999-00	921	1,669	2,590
1998-99	755	1,673	2,428



### ***Tuition and Fees***

Total undergraduate tuition, fees, room and board increased an average of nearly 5% a year.

#### ***ANNUAL TUITION, ROOM AND BOARD***

Academic Year	Undergraduate	Graziadio SBM	Education Psychology Masters	Full-Time Doctoral	Law	Room and Board
2002-03	\$26,370	\$13,140	\$8,340	\$9,840	\$27,210	\$7,930
2001-02	25,250	12,608	7,440	9,420	26,070	7,580
2000-01	24,050	12,000	7,080	9,000	24,820	7,290
1999-00	23,070	11,840	6,980	8,640	23,810	7,010
1998-99	22,120	11,280	6,480	8,280	22,830	6,840

### ***Faculty***

The following table reflects the number of full-time and other faculty for the five academic years indicated as of the fall term for each year, along with the number of full-time instructional faculty with tenure.

#### ***FACULTY SUMMARY***

Academic Year	Instructional Full-Time <sup>(1)</sup>	Other Full-Time <sup>(2)</sup>	Adjunct Faculty <sup>(3)</sup>	Total Faculty <sup>(4)</sup>	Full-Time Tenured Faculty
2002-03	274	92	332	698	177
2001-02	276	86	318	680	186
2000-01	274	80	320	674	186
1999-00	256	86	327	669	198
1998-99	251	79	336	666	187

- (1) Includes tenured and tenure-track instructional faculty only, and excludes deans, associate deans, coaches, administrators, and librarians who may hold faculty rank but whose primary responsibility is not instruction.
- (2) Includes visiting and distinguished faculty with short term contracts, as well as faculty with regular faculty rank who have split appointments.
- (3) Includes those faculty who have adjunct contracts (part-time faculty).
- (4) The totals exclude Deans and Associate Deans. For 2002-03, there were 16 individuals with both faculty rank and Dean/Associate Dean responsibilities.

Of the 274 instructional full-time faculty in 2002-03, 152 professors, 66 are associate professors, 52 are assistant professors and 4 are instructors. At present, approximately 97% of the faculty have obtained a Ph.D. or other terminal degree and approximately 65% (117/274) of the instructional full-time faculty are tenured. The current undergraduate student/faculty ratio is 12 to 1, and the University does not utilize teaching assistants.

In addition to faculty, the University currently employs approximately 948 full-time and 142 part-time staff. The University has had, and believes it currently enjoys satisfactory relations with its employees. The University contributes to pension plans and other welfare and benefit plans for its employees. There are no unfunded pension liabilities.

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

**General:** Pepperdine University is an independent, non-profit, privately endowed, co-educational university that enrolls approximately 8,100 students in its five colleges and schools. Seaver College, the University's undergraduate liberal arts college, the School of Law and the School of Public Policy are located on the University's 830-acre campus overlooking the Pacific Ocean in Malibu, California. The Graduate School of Education and Psychology and the George L. Graziadio School of Business and Management are presently based at the Pepperdine University Plaza Center (the Plaza Center) in Culver City, California, but will be relocated to the University's Malibu campus in the Fall of 2004 when the Drescher Graduate Campus is completed. Graduate courses are currently taught at the Plaza Center and at five other educational centers in Southern California, as well as the Malibu campus. The University also offers educational programs in facilities it owns in Heidelberg, Germany; London, England; Florence, Italy, and Buenos Aires, Argentina.

Mr. George Pepperdine founded the George Pepperdine College in Los Angeles in 1937. University status was achieved in 1970 when the institution added graduate and professional schools. The University opened its current campus in Malibu in 1972.

**Religious Certification:** Pepperdine University is an independent University affiliated with the Churches of Christ. It has provided both a certification of compliance with the provisions of the Authority's Act relating to religion, and a more comprehensive certification detailing compliance with the specific standards as required by the Authority.

**Administration:** The University is governed by a self-perpetuating Board of Regents composed of 40 elected 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 2000 and resulted in a reaffirmation of the University’s accreditation. The next WASC visit is scheduled for Fall 2011. Although the University’s WASC accreditation applies to all programs at the University, certain programs have received appropriate additional specialized accreditation. In addition, the School of Law is accredited by the American Bar Association (ABA) and holds membership in the Association of American Law Schools (AALS). The next ABA/AALS site inspection for the School of Law is scheduled for the academic year 2002-03.

**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.

*The Graduate School of Education and Psychology* offers masters and doctoral degrees in the education and psychology fields of study, with a total of ten available academic programs. The education programs prepare teachers who are leaders in technological innovation and collaborative learning environments, as well as administrators who manage change in business, health, and other social service professions. The psychology programs train professionals in the current and emerging human service fields, including clinical psychology and marriage and family therapy.

*The School of Public Policy* 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 at Los Angeles, Loyola Marymount University, and Pomona College.

## V. OUTSTANDING DEBT (000s):

Issue Name:	Original Amount	Amount Outstanding As of 7/31/02	Estimated Amount Outstanding after Proposed Financing
<b>Existing</b>			
CEFA Pool, Series 1993 A	\$25,550	\$ 23,530	\$0
CEFA, Series 1994	10,010	7,180	0
CEFA Pool, Series 1995 A	20,940	18,020	18,020
CEFA, Series 1997	16,000	7,895	7,895
CEFA, Series 1999 A	30,000	28,515	28,515
CEFA, Series 1999 B	20,000	20,000	8,675
CEFA, Series 2000	40,000	40,000	40,000
CEFA, Series 2002 A	35,000	32,000	32,000
Pepperdine Taxable Bonds, Series 2002		25,000	25,000
Notes Payable, B of A at 8.50%, due 2004		511	511
Notes payable to State Comp. Ins. Fund		7,000	7,000
Other Notes		275	275
Discount on long term obligations		(3,043)	(3,043)
<b>Proposed</b>			
Pepperdine University Series 2003		N/A	45,000
Totals		\$206,883	\$209,848

## VI. 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 question the financial viability or legal integrity of this applicant.

## VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution in an amount not to exceed \$45,000,000 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.